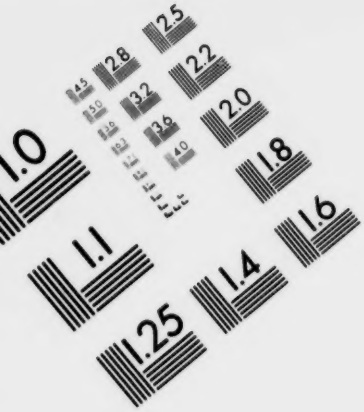
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Daily Report

Supplement

East Asia

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United States

ASAHI Editorial on 20 Feb Cheney Visit

OW1802194890 Tokyo ASAHI EVENING NEWS in English 17 Feb 90 p 6—FOR OFFICIAL USE ONLY

[Editorial: "Cheney Visit Looms"]

[Text] U.S. Defense Secretary Dick Cheney will visit Japan Feb. 20 and hold talks with Prime Minister Toshiki Kaifu and Director General of the Defense Agency Juro Matsumoto. Cheney is scheduled soon to present the U.S. Congress with a new plan for the country's military strategy in east Asia, including a reorganization of forces there. His visit to South Korea, the Philippines and Japan at this point, therefore, is greatly connected to the plan to be submitted.

The great implication of Cheney's tour of Asia became apparent during his first leg of the trip in South Korea. The U.S. side, while stressing that there would be no changes in its pledge to defend South Korea, still proposed to withdraw about 5,000 U.S. troops from the country by 1993. And the Korean side basically accepted this.

When we think about the history of tension on the Korean Peninsula, the move to reduce U.S. troops based in South Korea marks the end of an era. We do not intend to deny that the cutback is due to the U.S. financial state. But we must not forget that behind the move is the U.S. recognition that the Soviet military threat has diminished in East Asia.

The reduction of overseas U.S. forces is about to be realized in Europe. The recent U.S.-South Korea agreement clearly shows that the cutback plan is to include Asia. It is certain that discussion on reduction of the U.S. military in Japan will be on the agenda following that concerning the Philippines.

We have been opposed to both the United States and the Soviet Union deploying large forces in Asia. We therefore welcome the partial U.S. military withdrawal from Japan, South Korea and the Philippines following the withdrawal of some Soviet forces from Cam Ranh Bay in Vietnam. The reduction of troops on both sides will create a new easing of tension, which in turn is likely to lead to the next round of military reduction.

Since Defense Secretary Cheney's visit to Japan is closely related to U.S. strategy in Asia in the 1990's, Japan should also present a long-term security policy. We would be sidestepping the main theme if we were to limit our discussions to such aspects as whether the scope of the withdrawal of U.S. military personnel in Japan is large or small.

On this point, the timing of Cheney's visit to Japan is bad. There is a need for the Prime Minister's Office, the Foreign Ministry and Defense Agency officials to confer extensively, but the government has no such time because it is devoting all its energies to the Feb. 18 elections. We are worried whether adlib talks can bear fruit.

The talks, however, are just around the corner. We would like the government to face the talks with the following points in mind:

First, it is important to have detailed explanations from the U.S. side about the true meaning of the reduction of the U.S. forces. The Japanese side should question the United States about its reduction plan for the 1990's and its security plans in Asia after the reductions are realized.

Second, it may be difficult to determine the political future because it will be just after the elections. No easy promises should be made about such an important long-term issue spanning the 1990's. The government should tell the U.S. side that it would reply after listening to the opinion of the new Diet assembled after the election.

The third issue is the burden sharing of the expenses of the U.S. military in Japan. Cheney reportedly is to demand that Japan shoulder much more of the expenses. Such a stance was revealed during his visit in South Korea.

Burden sharing for U.S. forces based in Japan is essentially stipulated in the Japan-U.S. Status of Forces Agreement. Japan not only adheres to the agreement, but has also continued to increase annually its budget for the expenses of the U.S. forces in Japan above the amount stipulated in the agreement.

If Japan is to increase by a great deal spending for the U.S. forces, the usual burden sharing means would not be acceptable. The government should fully explain to the public the meaning of the U.S. military presence in Japan and then form another agreement with the United States concerning burden sharing. The Diet is now required to keep watch over how taxes paid by the people are spent on expenses for the U.S. forces in Japan.

Editorial on Bush State of Union Address

OW1202135390 Tokyo NIHON KEIZAI SHIMBUN in Japanese 2 Feb 90 Morning Edition p 2—FOR OFFICIAL USE ONLY

[Editorial: "The U.S. President's State of the Union Address Indicates the Arrival of the Age of Economic Competition After the Cold War"]

[Text] U.S. President Bush has entered his second year in power. In his State of the Union address, he pointed out that while initiating a peace offensive in this shift of the cold war structure, the United States will strengthen its competitive power to deal with the global economy in the 1990's. It may be observed that while promoting coordination with the Soviet Union through disarmament talks, the United States has clearly indicated its position to compete with such nations as Japan in the economic sphere.

"It is freedom that is a noble cause and is something brilliant." In his State of the Union address, President Bush indicated his confidence in dealing with such historical changes as the prodemocracy movement in Eastern Europe. Concerning the talks on conventional forces in Europe, he has made a new disarmament proposal calling for large-scale reduction of the U.S. and Soviet troops in Central Europe.

He has also appealed for strengthening the international competitive power of the United States, saying that "goods made in the United States must be recognized in the world as goods symbolizing quality and progress." He also stressed that personnel training should be strengthened through reforms in education, that savings must be increased through the introduction of a tax-free savings system, and that fair competition must be promoted.

Now that the global framework of politics and economics is making a great shift from military confrontation to economic power competition, we should speak highly of President Bush's State of Union address in which he has set forth strategies that are in line with this trend.

During his first year in power, President Bush enjoyed a favorable climate. While the U.S. economy continued to grow, the unemployment rate remained at a low level. At the same time, commodity prices remained basically low. Drastic changes in Eastern Europe have led to his achievements in diplomacy. He was able to confirm an end to detente at the U.S.-USSR summit talks held in Malta, and to herald a "new age in the relations between the United States and the Soviet Union". Scowcroft, assistant to the President, made a secret visit to China, and despite severe criticism of his visit, it was certainly connected with the lifting of martial law in Beijing.

Nevertheless, during his second year in power, President Bush is bound to meet several situations in which his leadership will be put to the test. Due to the unstable political situation in the Soviet Union, people have now come to doubt the stability of the administration under President Gorbachev, for whom President Bush has pledged his support.

After eight years, the U.S. economy may have now begun to run out of steam. There are concerns over a possible triple drop [in the dollar, and in the prices of both stocks and bonds] on the financial market, and it will be very difficult to ensure a soft landing. No changes have been observed in the nation's deficits. The reduction of deficits in finance, as stated in the address on draft budgets, can never be achieved without an increase in taxes. The decision to exempt a maximum of $5,000 interest income from taxation can hardly serve as a trump card in encouraging the practice of savings. All of the measures mentioned in the State of the Union address are important in strengthening international competitive power. However, it will take some time before such measures show their effects.

Under such circumstaces, what we are most concerned with is a growing outcry for government-managed trade. Japan and the United States will resume consultations following the general election in Japan. However, it has become more convincing in the United States that it will be difficult to expect to avoid economic frcition as a result of the structural consultations. If our two nations fail to avoid friction, it is feared that the argument of controlled trade will be rekindled in the U.S. Congress and among economists in the private sector. With the interim election scheduled for November in the United States, the Bush administration's capability in handling such a situation will certainly be put to the test.

The point at issue now is that Japan is not capable of dealing with the changes in the world, as was mentioned in the State of the Union address. When we take into account the changing domestic political situation, we cannot but feel concerned, because no progress will be made in improving such economic structures as circulation and agriculture. As an economic power, Japan should take more positive measures and actions to deal with such issues as the opening of its markets and the improvement of its economic structure. Otherwise, when the cold war ends, the confrontation between economic powers will surface. This is what President Bush seems to be hinting at in his State of the Union address.

Editorial Views Bush's Economic Report

OW1202020390 Tokyo NIHON KEIZAI SHIMBUN in Japanese 8 Feb 90 Morning Edition p 2

[Editorial: "U.S. Report Calls on Japan To Open Its Doors to Economic Era"]

[Text] U.S. President George Bush in his economic report renewed his call on Japan, as an economic power, to open its doors in this age when the world is moving toward a world economy, propelled by the U.S.-Soviet rapprochement. We can predict from this that the United States will step up its pressures on Japan once the general election is over through the Japan-U.S. economic structural talks and otherwise.

The president's economic report this year, which presents the outlook for the U.S. economy and the direction of government economic policy, provided for the first time a separate subject entitled "Japan and the World Economy" to deal specifically with economic issues existing between Japan and the United States. The report, taking the position that the cause for the trade imbalance between Japan and the United States lies in too little savings by the United States and too little public investment by Japan, pointed out that to regain a balance in savings and investments for Japan and the United States, Japan should expand its investments while the United States should reduce its financial deficits and improve on savings. It may be said that in the report the United States took the stand of stressing needs for macroeconomic measures more strongly than before.

At the same time, the report called for such structural adjustments as removal of market obstacles in the agricultural sector, improvement on land issues, and reform of the distribution system. On the other hand, the report made it clear that the government will squelch the smoldering moves within Congress to control trade or to regulate Japan's investments in the United States.

What is apparent from the budget message, the State of the Union message, and this economic report by President Bush is that the President is strongly conscious of the fact that the United States is entering an age of competition among economic powers, following a transformation in the Cold War structure. The President is hoping to use the peace dividend, which becomes available from reductions in defense spending, in revitalizing the national economy and helping it improve international competitiveness.

In a series of messages and reports, the United States set out the intention of giving tax breaks to promote savings, reducing the capital gains tax, and reforming the education system. Hence, it can be said that the United States has begun taking action on the issues that have been raised in the Japan-U.S. structural talks. It is questionable how these actions actually will lead to promoting savings or strengthening competitiveness. However, putting the question aside, it is certain that the United States has shown a position of doing its very best. The United States, having done what it can on its part, will now wait for responses from Japan.

How shall Japan respond to this at the Japan-U.S. structural talks which will come immediately after the general election? What concerns us somewhat in Japan is the strong sense of protectionism noted in both the ruling and opposition parties in their election debates. What we must realize at this time is that the position of Japan, an economic power, is changing along with rapid changes in the world's political economy.

No doubt, it takes time to solve structural problems. However, if we see a change in the situation taking place, we should be able to see the direction. We do not need to wait for the United States to point out that many of the issues discussed at the structural talks, like the land issue, should be solved by the Japanese themselves without delay.

As for the public investments noted in the U.S. economic report, this is a subject which needs to be reviewed, taking into account the state of the economic situation and limited financial resources. However, we must value the view that the prosperity of today should be put to good use for tomorrow. The very poor state of such a social infrastructure as the sewage system is one of the reasons people cannot feel the abundance of the economy in this nation. It is beyond our understanding why the government cannot take action to review the possibility of reallocating public projects.

Determining how to respond to issues raised by the U.S. economic report means making a major decision for Japan, not only to resolve Japan-U.S. economic frictions facing us immediately, but also to choose what this abundant Japan or its people should do in the new international framework.

Editorial Comments on Bush's Environmental Plan

OW0802064690 Tokyo THE DAILY YOMIURI in English 6 Feb 90 p 6—FOR OFFICIAL USE ONLY

[YOMIURI SHIMBUN 5 February editorial: "Bush's Environmental Plan"]

[Text] U.S. President George Bush made an ambitious proposal for solving environmental problems in his State of Union address to Congress Wednesday.

Bush said this year's federal budget provides over $2 billion (about Y290 billion) in new spending to protect the U.S. environment and more than $1 billion of this appropriation will be spent on "global change research."

Calling his new environmental program "America the Beautiful," Bush said the United States will expand national parks and wildlife preserves and plant 1 billion trees a year for "generations to come."

We envy the United States for producing such a plan.

In Japan, whose total area is 1/25th of that of the United States, the Environment Agency's budget for the preservation and use of the natural environment is no more than Y3.3 billion this fiscal year. Only about Y300 million will be added to this next fiscal year.

Japan's Trees Vanish

Trees not only absorb a great deal of carbon dioxide during their growth but protect the soil from erosion and help the earth retain water.

In Japan, forests are being eliminated by the construction of golf courses. At the end of March 1988, there were 1,588 golf courses around the country. Their total area is estimated to be 160,000 hectares, or some 8 percent of the total area of paddy fields nationwide. This figure is expected to increase.

Since the Environmental Protection Agency, the first of its kind in the world, was established by former U.S. President Richard Nixon in 1970, the United States has led the international environmental effort.

Many U.N. environmental conferences have been held in various nations since 1970, and now most people in the world have come to understand the meaning and the importance of the phrase "Only One Earth."

Global Level Problems

Twienty years have past since 1970. We now face global level environmental problems such as acid rain, depletion of the stratospheric ozone layer, and global warming.

These problems were caused by our continued demand for a more affluent lifestyle. Developing nations, containing about three fourths of the world's population, have also been trying to improve their quality of life at a very rapid rate.

If the situation is left unchanged the global environment will be further damaged. For instance, China consumed 800 million tons of coal in 1987, which exceeded the total consumption of Western advanced nations. We cannot expect satisfactory results without China's participation if world nations are to reduce coal consumption in order to combat global warming.

However, the advanced nations cannot dictate to the developing nations. If we try to force our philosophy upon these nations, it is likely they will respond by saying that the advanced nations are unreasonable as they are the ones that destroyed the environment in the first place.

President Bush has now moved to take a leadership role to motivate the entire international community to move toward the pursuit of solutions to various global environment problems.

Editorial Comments on U.S. Budget Plan for 1991

OW0402132290 Tokyo MAINICHI DAILY NEWS in English 2 Feb 90 p 2—FOR OFFICIAL USE ONLY

[Editorial: "Peace and the U.S. Economy"]

[Text] A budget is a series of targets which bear price tags. U.S. President George Bush's budget plan for fiscal 1991 (October 1990 through September 1991) incorporates a scenario that will substantially reduce defense spending during the coming five years. We appreciate this as the proof of his determination, stated in dollars and cents, not to allow the thaw of the Cold War to move backward.

Meanwhile, to confine the discussion to fiscal 1991, the budget would cut the deficit nearly in half, to 63.1 billion dollars, just below the legal limit of 64 billion dollars set by the Gramm-Rudman-Hollings budget-balancing law. But, as in the cases of previous years, this is a result of many accounting tricks and expedient estimates just to meet the requirement of the law.

The budget reflects the wind of peace in the world which the U.S.-Soviet summit in Malta last December has assured.

A year ago the Bush administration had estimated the real growth rate of defense spending over the coming five-year period at zero for fiscal 1990, 1 percent for fiscal 1991 and 1992 respectively, and 2 percent each for fiscal 1993 and 1994. In contrast, the new budget projects a more than 2 percent cut in real terms in defense spending every year over the next five years. This conversion from the "pluses" to the "minuses" is a major significance.

The projected lowering of the ratio of defense spending against GNP to 4 percent in fiscal 1995, the lowest in 50 years, also seems appropriate at this stage.

Some questions remain, however, in regard to the plan to reduce defense expenditures.

One is that this cannot be made more realistic before the outcome of the talks on strategic arms and conventional forces reductions in Europe is ensured, even though the move toward disarmament remains unchanged.

Another concerns the choice of whether to allot the money saved from trimming the defense spending to other expenditures as a "peace dividend" or for reducing the huge fiscal deficit.

Members of the Democratic Party, which controls a majority in Congress, are already demanding that the entire saving should be spent for domestic purposes, such as education and investments in infrastructure.

U.S. defense spending was cut sharply with the Vietnam pullout from the late 1960s to the early 1970s, and the saving was diverted to non-military expenditures, enlarging the deficit. That was obviously an error, which should not be repeated.

One reason for the U.S.-Soviet reconciliation in Malta was their huge fiscal deficits, which have made it impossible for each of them to continue as a military empire. The U.S. fiscal deficit has consumed a large portion of its savings and has turned the country into the world's largest debtor. A reduction in the deficit is the key for the U.S. to deliver itself from the economic difficulties.

Bush's deficit estimate for fiscal 1991 of 63.1 billion dollars without tax increase compares with the projected deficit of 123.8 billion dollars for fiscal 1990, and on the surface seems to involve a great austerity.

But that is far from reality, and the gimmick is in the Gramm-Rudman-Hollings budget-balancing law. Although the law sets a limit to the deficit estimate at the time the budget is prepared, it has no binding power over the actual revenue and expenditure after the budget is implemented.

As a result, the Bush administration has come up with a very modest estimate of interest payment on the premise that the rates will substantially go down, and a very optimistic projection of a large revenue increase on the assumption that the economy will grow at 3.3 percent in real terms.

Thus, Bush's deficit cut projection is highly questionable, as it is based on inflated optimism about interest rates and economic growth.

Although Bush had estimated the deficit for fiscal 1990 at less than 100 billion dollars, it is now projected at 123.8 billion dollars.

The key to reducing the deficit is either to cut defense spending or increase taxes. The prospect is bright for the former. To pursue a steady reduction in its defense budget seems the way for the U.S. to contribute to world peace and to recover its prestige.

Editorial Views U.S. 1991 Defense Report

OW0802004190 Tokyo THE JAPAN ECONOMIC JOURNAL in English 10 Feb 90 p 8—FOR OFFICIAL USE ONLY

[Editorial: "Wait-and-See Attitude Needed"]

[Text] U.S. Defense Secretary Dick Cheney submitted the fiscal 1991 defense report to congress Jan. 30. The report welcomed the recent, dramatic events in Eastern Europe and a relaxation of East-West tension. But it also contended that the U.S. must be cautious in loosening up its military vigilance and conduct such relaxation in a gradual manner.

We consider such caution appropriate. The U.S. should wait to see how the situation develops before responding too quickly to events. In the West, there is a view that the cold war has ended in victory for the Western camp. But that view overlooks the fact that even though economically the West was found to be superior to the Eastern bloc, militarily things are still very much in an uncertain, transitionary period.

One of those uncertain factors is a possibility that the present Soviet perestroyka policy could retrogress, as the Cheney report pointed out. This possibility is underscored by the fact that even though nearly five years have passed since perestroyka was launched, an acute shortage of daily necessities and ethnic conflicts still plagues the Soviet Union, creating the potential for unrest there.

Another unstable factor is that despite the progress of East-West talks over the reduction of conventional and nuclear forces in Europe, Soviet naval and air forces are still being strengthened in the Far East.

Meanwhile, in addition to the defense report, the Bush administration has announced a plan to cut defense spending for fiscal 1991 and close or cut operations at 69 U.S. military bases, including 14 overseas. In the Far East, both Washington and Seoul have agreed to close three out of five U.S. Air Force bases in South Korea.

From a long-term standpoint, an efficient realignment of U.S. military bases that stems from changes in the threat of potential enemies is necessary. But we would like to ask the U.S. to conduct such a realignment in a way that will not tempt the Soviets to take advantage of the situation.

Editorial Reacts to 1991 U.S. Defense Report

OW1102214090 Tokyo SANKEI SHIMBUN in Japanese 1 Feb 90 Morning Edition p 2—FOR OFFICIAL USE ONLY

[Editorial: "U.S. Defense Report Presses for Burden Sharing"]

[Text] "The possibility of a Soviet military invasion of the United States and its allies is at its lowest point in the postwar period." So says the 1991 defense report presented by U.S. Secretary of Defense Cheney to Congress on 30 January. Moreover, defense spending is being cut by 2.6 percent in real terms, compared to the previous year. This may be seen as a manifestation of the U.S. Government's recognition of the major changes that occurred last year centering on Eastern Europe, and its effort to use that as a guideline in U.S. strategy.

However, the report also states: "The Soviet armed forces still retain a strong military capability and their modernization is continuing. Today, uncertainly abounds. Now is the time to have a carefully designed flexible strategy. The United States must maintain its conventional and strategic military capability."

To put it simply, the United States recognizes and welcomes the changes in the USSR and Eastern Europe. However, it is dangerous to lay down its defenses all of a sudden. Let us look at future developments carefully. What the defense report really wanted to say is: "Experience has taught us that we must continue to be prepared." (from Defense Secretary Cheney's foreword in SOVIET MILITARY POWER, 1989)

In view of signs of the U.S. defense policy's shift from a one-sided theory of threat to a more flexible strategy, how should we look at Japan's defense policy predicated on the Japan-U.S. security setup? The Defense Agency has developed its defense policy based on a concept of basic defense. Its theory is that whether or not a threat exists, a country needs a minimum defense capability.

However, if the absolute amount of our defense budget expands to a level comparable to Britain, France, and West Germany while foreign countries led by the United States and the USSR are cutting their defense budgets, the Japanese people will certainly ask "why Japan?" Even if the increase is due to high wages and exchange rates, they will not be convinced by the concept of basic defense alone. Sooner or later, there will be a need to draw up the outlines of a new defense concept.

When that time comes, one of the things we must bear in mind is our role and responsibility as a member of the Western camp. The cutback in the U.S. defense budget due to financial deficits will result in more pressure on

Japan for defense burden sharing. The U.S. defense report calls on "Japan to do even more in the area of cost sharing and in improving the quality and sustainability of its current forces," which means burden sharing in the broad sense. We must now tackle issues such as creating the legal framework to enable joint military operations, not to mention an increase in Japan's share in the cost of maintaining U.S. forces in Japan.

Furthermore, the United States has demanded that the share of joint development of weapons be increased from the present three percent to 25 percent by the year 2000. Surely, the United States has Japan's high level of technological capability in mind. From now on, such contributions apart from those in the area of hardware will continue to carry more weight.

We must not be carried away by the mood of detente and unscrupulously plunge into defense spending cutbacks. In times like these, to be overly careful is perhaps just the appropriate attitude. At a time when radical changes are occurring in the Soviet Union and Eastern Europe that are being welcomed by the United States, this may be the best opportunity for us to sit down and reconsider the defense issue.

Defense Official Denies Bases Consultations

OW1002024590 Tokyo JIJI in English 1334 GMT 8 Feb 90—FOR OFFICIAL USE ONLY

[Text] Tokyo, Feb. 8 (JIJI PRESS)—Deputy Director-General of the Defense Agency Seiki Nishihiro Thursday denied that Japan and the United States are holding consultations on the closing and consolidation of some U.S. military training ranges in Okinawa.

Nishihiro's remark came after Adm. Huntington Hardisty, U.S. commander in chief of the Pacific command, indicated in his testimony before the House Armed Services Committee Wednesday that government [word indistinct] discussed [word indistinct] on the matter are under way. The Japanese Government has never held such consultations with the United States, Nishihiro said, adding that Hardisty must have misunderstanding about the matter.

Ambassador To U.S. On Structural Consultations

OW1102214190 Tokyo ASAHI SHIMBUN in Japan 7 Feb 90 Morning Edition p 3—FOR OFFICIAL USE ONLY

[Text] Ambassador to the United States Ryohei Murata, who is temporarily back in Japan now, granted an interview to ASAHI SHIMBUN on 6 February. Touching on the backlog of problems in Japan-U.S. relations centered on economic issues, he first stated that "the next half of the year will be a very important period." He then added that "if our two nations should fail to handle these problems smoothly, there is a danger that our relations will get stiffer and our relationship will fall into a very undesirable state." Concerning the "interim appraisal" of the Japan-U.S. structural consultations scheduled for as early as late March, he stressed his view that it would be necessary to respond to the U.S. Government's request to indicate that the work has been carried on smoothly.

Among the urgent problems existing in Japan-U.S. relations, Ambassador Murata pointed out such issues as the structural consultations, and various fields listed in the Super Article 301 of the U.S. Comprehensive Trade Law (on the identification of, negotiations on, and sanctions against unfair trade partners or practices). As for measures to deal with these issues, he said: "There is a limit to what the government can do. However, if due measures are taken, economic frictions might still exist, but they will not lead to a crisis." At the same time, he also pointed out that if adequate measures should not be taken, there is a danger that Japan-U.S. relations could deteriorate into a very undesirable state.

The third session of the Japan-U.S. structural consultations is scheduled for immediately after the general election. Concerning that issue in particular, Ambassador Murata explained, "whenever I meet with influential figures in the United States, all of them ask me about the structural consultations." He added, "due to the nature of the problems, there are some for which we cannot easily work out answers, while there are others with which we can deal in a comparatively easy way." Thus, he indicated his idea that it would be necessary for Japan to prepare some response to the interim appraisal.

U.S. Businessman on 'Unhealthy' Relationship

OW2501154390 Tokyo THE DAILY YOMIURI in English 23 Jan 90 p 6—FOR OFFICIAL USE ONLY

[Speech given by William Franklin at the Japan Productivity Center's Top Management Seminar in Tokyo, 17 January: the speech is entitled: "The Unhealthy Japan-U.S. Relationship—A Businessman's Perspective"; Franklin is the president of the American Chamber of Commerce of Japan, the president of Weyerhaeuser Far East, Ltd., and also special correspondent to THE DAILY YOMIURI]

[Text] I am concerned about the current state of U.S.-Japan affairs. I have just returned from a month in the United States and I am disturbed about the intensity of the feelings about the U.S.-Japan trade deficit and Japanese investment in the United States.

There is increasing sentiment for protectionist legislation and demands for political action to solve the trade problem. Even Japan's longtime friend, Peter Drucker, recently wrote in the ECONOMIST: "The West will no longer tolerate Japan's adversarial trading methods of recent decades...a wall around the home market to protect social structures and traditions, plus a determined push beyond for world dominance of selected Japanese industries."

I am equally concerned about the increasingly negative sentiments that the Japanese express about the United States. There is a tendency for Japanese to say that the trade deficit is a U.S. problem and a tendency for Americans to say that the deficit is a Japanese problem.

Both Japanese and U.S. leaders are equally guilty of attempting to transfer all the blame to the other country. That kind of situation leads to a lot of talk and not much action. This is not a healthy condition.

I would like to give a businessman's perspective on these issues. What can businessmen do about the problem? Is it hopeless? Are we headed for a serious rupture in the most important bilateral relationship in the world?

If the United States and Japan don't change their tune that is exactly what could happen. If both countries don't change their behavior we are heading toward a serious confrontation in which the people of Japan, the United States, and citizens of many other countries will lose. The relationship of two countries that control almost half of the world's economic output cannot be disrupted without a great deal of damage.

Is it hopeless? It doesn't have to be.

What do we need to do to find a solution—a solution where both Japan and the United States win? I think there are four areas in which we can improve.

First. Japanese investment in the United States is good for us. I would like to see more. There does need to be some self-discipline to avoid the over-concentration that has occurred in places like New York, Los Angeles, and Hawaii. But overall, the Japanese have invested for the long term and these investments have tended to create or preserve jobs. I welcome Japanese investment in the United States. I think the negative feeling about investment is a side effect of the trade deficit.

Second. It is true that the major part of the trade deficit has to do with the fundamental economic situation in Japan and the United States. And the United States has more to correct in this respect than does Japan. Before talking tough to Japan we need to get tough with ourselves.

The United States needs to make structural changes that have to do primarily with our competitiveness and the Japanese need to make changes that have more to do with improving the climate for foreigners to do business in Japan. We each have to work independently on our own in our own self-interest.

It is really not a matter of negotiating solutions to these basic structural changes. But, we can use the Structural Impediments Initiative discussions to improve our mutual understanding and each use some external stimulus to help us do what we should be doing anyway. Working on the list of issues that the United States gave to Japan is in Japan's interest. The list Japan gave the United States is a good list for the United States to work on. By working with a sense of urgency on the structural changes, the citizens of both Japan and the United States win.

Third. There are also still some market opening issues that each country needs to do something about. In this case Japan has more to do than the United States. Japan has made enormous progress in the past decade getting rid of formal barriers to imports. I praise Japan for this remarkable change. Is Japan weaker after removing these barriers? No, Japan is stronger because of the changes. Now, we need the same sense of urgency to work on barriers that have more to do with trade practices and policies.

Recently, a Japanese cabinet minister said in the United States, "The Japan market is as open as the U.S. market." I do not know what his standards are. But some American businessmen believe that the United States will not have equal access to the Japan market until it is as easy for a U.S. company, with quality products, quality service and quality commitment, to start up a new business in Japan as it is for a Japanese company to start up a new business in the United States. I am talking about equal access for new companies, not just those who have been here for 20 or 30 years and have learned how to do business in the system. It is no longer in Japan's interest to say that "Japan is different" and just leave it at that.

These impediments to imports are not the major cause of the trade deficit. But they have taken on an importance beyond their economic value. The argument that the resolution of a specific problem is unimportant because it will not result in a major improvement in the bilateral trade imbalance as a whole, is faulty reasoning.

These trade practices and policies are undermining the entire U.S.-Japan relationship. They therefore require the same level of recognition and attention as the larger economic issues. These changes can be made without undue sacrifice of the overall Japanese economy or any sacrifice to the quality of life of the Japanese people. In fact, some Japanese make the case that the quality of life of the Japanese would be enhanced. These changes are necessary to protect the long-term viability of the entire Japanese economic system.

Fourth. The affirmative action programs announced by the International Trade and Industry Ministry are very timely and positive. Bold, concrete, highly visible programs are called for, programs that will bring immediate results. I applaud MITI's objective of becoming the "importing superpower of the 1990s."

These are business solutions to economic problems. Many of them can best be solved with business leadership.

In his visit to Japan last year, former U.S. President Ronald Reagan said, "Japanese and Americans like each other, trust each other, and respect each other." I would

add, "And Japanese and Americans need each other more than ever before, to improve the quality of life of both countries."

'Complicated Problems' Said in Economic Structure

OW2501094790 Tokyo THE JAPAN ECONOMIC JOURNAL in English 27 Jan 90 p 4—FOR OFFICIAL USE ONLY

["Excerpts" of NIHON KEIZAI SHIMBUN interview with Takuji Matsuzawa, vice chairman of the Federation of Economic Organizations, Keidanren; first three paragraphs are JAPAN ECONOMIC JOURNAL introduction]

[Text] The current Japan-U.S. trade talks, better known as the Structural Impediments Initiative (SII), will soon resume in hopes of hammering out bilateral differences. A final report is due this July.

The U.S. is demanding changes in firmly established practices in fields such as distribution and finance. Japan's business community is keenly intersted in the SII talks.

To probe the business community's stance on the talks, The Nihon Keizai Shimbun interviewed Takuji Matsuzawa, vice chairman of the influential Federation of Economic Organizations (Keidanren). Matsuzawa is also chairman of the Keidanren ad hoc committee on the Japan-U.S. structural talks. Excerpts from the interview follow:

Q: Four years have passed since the release of the famous Maekawa report, which urged that Japan transform its economic structure from its export orientation to one led by domestic demand. This transformation is said to be taking place smoothly. But the fact of the matter is that the transformation has brought out more complicated problems.

A: Some of the problems identified by the Mackawa report were resolved by market mechanisms. However, while U.S. trade imbalances with the European Community and some Asian countries were considerably corrected, in response to the adjustment of exchange rates, the Japan-U.S. imbalance is continuing. I strongly believe that in order to correct the imbalance, we need to squarely tackle the nation's macroeconomic problems like those of savings, investments, tax and budgetary systems and others. At present, the SII talks are focused mainly on microeconomic problems. They will not have much effect in solving the trade imbalance.

Yet, some issues identified by the U.S. are good and desirable from the standpoint of the Japanese domestic economy. These include improving the distribution system, simplifying import procedures, and promoting the effective use of land. We need to sincerely address such issues.

Q: The Japanese government seems to be hoping that the business community help in solving "keiretsu" (corporate grouping) and other issues being raised by the U.S.

A: The business community must make appropriate efforts. As for the keiretsu problem, I believe this behavior is very rational in an economic sense if judged from the standpoint of lowering cost, achieving high quality, and maintaining stable suppliers and credibility with other corporations. It is not a practice peculiar to Japanese culture, but common to international economics.

And the Keidanren is also making efforts to spread understanding of Japanese business practices, concepts and stances. For example, we have the ad hoc committee on the Japan-U.S. structural talks. The government also should make efforts to embrace "perestroyka" (restructuring) in its inefficient decision-making system and also tackle various issues from a global standpoint.

Q: In the recent SII talks, the U.S. seems to be targeting the nation's financial practices.

A: It is true that foreigners are having a hard time understanding Japan's financial liberalization and things like the Finance Ministry's "administrative guidance" over the matter. Finance is essentially a field that is easy to internationalize and it is quite regrettable that Japan's financial system is very hard for foreigners to understand. We need to take more steps toward financial liberalization even before they are put forward by the U.S. One such step is a complete liberalization of interest rates.

Q: Do you believe that both Japan and the U.S. can smoothly agree on a final report by this July?

A: The talks on microeconomic aspects will be hard going because they are unfit for government-level talks. Yet Japan should make clear that talks are mainly focused on discussing macroeconomic aspects. Otherwise, the talks will not be very meaningful or fruitful because they will not produce any wisdom or steps to fundamentally correct the bilateral trade imbalance.

Government Source on Prospects for GATT Talks

OW1402142290 Tokyo NIHON KEIZAI SHIMBUN in Japanese 7 Feb 90 Morning Edition p 5—FOR OFFICIAL USE ONLY

[Text] A government source on 6 February said that the fiber talks in the GATT multilateral trade negotiation (Uruguay Round), at which new rules for fiber trade is under study, "will likely turn into a debate on the four proposals by Japan, the United States, the EC and developing countries running against one another." Although almost all member countries basically agree on abolishing the current multifiber arrangement (MFA), as advocated by developing countries, some countries, including the United States, are expected to call for

special measures for the protection of domestic industries. Hence, the adjustment with developing countries, which are predominantly fiber exporters, will likely face rough going.

The Japanese proposal, put forward on 5 February, calls for: 1) the MFA be abolished as of the end of July, 1991, and be integrated into the GATT general rules by the end of 1999; and 2) prior to integration, a third party agency must supervise import restriction measures under objective criteria. On the other hand, the "global quota" system, to be proposed by the United States shortly, calls for setting export quotas by fiber exporting countries, like those now in force in the steel trade and other areas. The EC calls for a special safeguard (emergency import restriction) system, under which import restrictions can be imposed when there is a sudden increase in imports.

Developing countries, a majority of which are fiber exporters, are certain to oppose the U.S. and EC proposals which are like advocating a managed trade principle. Although the Japanese Government has confidence in its proposal, saying, "It is a realistic proposal which goes in between the positions of the exporters and importers," a difficult process of coordinating views between exporters and importers remains ahead with regard to the criteria prior to the GATT integration.

The MFA is an arrangement under which imports can be restricted under bilateral and other agreements in case the markets are thrown into confusion due to a sudden increase in imports. At present, an accord has almost been reached on abolishing the MFA at an early date, but the predominant view is that a complete shift to free markets will be difficult even after its abolition.

Editorial Reacts to Bush State of Union Address

OW1202002190 Tokyo SANKEI SHIMBUN in Japanese 2 Feb 90 Morning Edition p 2—FOR OFFICIAL USE ONLY

[Editorial: "The Start of an Era of U.S.-Soviet Cooperation"]

[Text] It seems that, as we enter the 1990's, both the United States and the USSR have started to march together toward perestroyka (restructuring) in Europe.

In connection with the issue of East-West Conventional Forces in Europe (CFE) talks, U.S. President Bush presented a new proposal in his state of the union address to a joint session of the two Houses of Congress on 31 January (1 February, Japan time) for the United States and the Soviet Union to reduce their forces in central Europe to 195,000 on both sides. President Bush had proposed at the NATO summit meeting in May last year, that such forces be reduced to 275,000 on each side. The current proposal represents a great step forward over the last one. We highly commend this.

Regarding the Bush proposal, a senior U.S. Government official said that "reality has moved faster than the CFE talks in Vienna." We are pleasantly surprised that, like the rapid changes in the Soviet and East European situation, the "tempo of disarmament" is also gathering speed.

On the U.S. side, circumstances forced it to cut the defense budget, once considered a "sacred cow," in order to reduce the financial deficit. On the other hand, Soviet efforts at economic rehabilitation also made it cut back on defense spending.

Under such circumstances, the United States and the USSR confirmed the end of the East-West cold war, which had persisted since World War II, and new cooperative relations during the Malta meeting last December. The present Bush proposal is a symbol of such an agreement.

Needless to say, when it comes to policy on the USSR, we would like it to be always conducted with a "prudent approach," in the words of Secretary of State Baker.

The 1991 defense report, while pointing out that "the possibility of a Soviet military invasion of the United States and its allies is at its lowest point in the postwar period," also stated that "the Soviet Armed Forces still retain a strong military capability, and modernization is continuing. Uncertainty abounds in the world today. Now is the time to have a carefully designed flexible strategy."

Even in the controversial Z Paper [Z ronbun], a theory of caution against the USSR is given much attention.

Of course, the current Bush proposal was presented after considering such theories of caution, but we would like to look at disarmament as a "product" of the new era of U.S.-Soviet cooperation.

It is reported that on the morning of 31 January, before making his State of the Union address, President Bush called Supreme Soviet Chairman and General Secretary Gorbachev to brief him on the substance of the proposal. To this, Chairman Gorbachev showed great enthusiasm and said that "this will have favorable effects on U.S.-Soviet relations."

The leaders of the United States and the Soviet Union, who stood at a new starting point in history when they engaged in the Malta talks and directly met each other to dispel misunderstandings and suspicions on both sides, have now conferred with each other over the hotline on an important proposal. Looking back at a few years ago, during the first Reagan administration in the early 1980's, or the period when the United States and the USSR cursed each other, we are astounded at the rapid pace of historical development.

Above all, we hope that the "dividends of peace" born from U.S.-Soviet disarmament will contribute to freedom and democracy.

Editorial on U.S.-Soviet Arms Reduction Talks

OW1502133590 Tokyo MAINICHI DAILY NEWS in English 12 Feb 90 p 2—FOR OFFICIAL USE ONLY

[Editorial: "U.S.-Soviet Cooperation"]

[Text] The three-day U.S.-Soviet foreign minister's conference held in Moscow further confirmed the structure of cooperation between the two nations and made big progress in the fields of nuclear disarmament and arms control.

Prior to this, the three-day meeting of the Soviet Communist Party's Central Committee agreed to give up monopoly on power which the party had been guaranteed by the Soviet Constitution. This decision, striking at the very core of Soviet socialism, shook the world. The U.S.-Soviet meeting that followed almost immediately in Moscow was equally important from the standpoint of world security.

The adjustment of views and the closer approach made by the two powers in regard to the Strategic Arms Reduction Talks (START) are to be welcomed. In particular, an agreement was reached to separate START from the talks to reduce the number of Sea Launched Cruise Missiles (SLCM) and this has opened up the possibility that the U.S. and the Soviet Union will sign a strategic arms reduction agreement at the June summit.

In addition, anticipation was heightened that an agreement will also be reached in the negotiations on conventionl forces in Europe. This has a close relationship with the issue of German reunification.

Carrying on the proposal made by U.S. President George Bush in his State of the Union message, Secretary of State James Baker formally called for a reduction of Soviet and U.S. forces in Central Europe to 195,000 each.

Soviet President Mikhail Gorbachev bolstered this by proposing that "instead of limiting it to Central Europe, the forces in the whole of Europe should be reduced to that number or 225,000."

At present, American troops stationed in the countries of the North Atlantic Treaty Organization (NATO) number about 305,000. There are about 575,000 Soviet troops deployed in the countries of the Warsaw Pact. As far as the reduction percentage is concerned, the Soviet Union would be making a bigger compromise.

Included in the backround of Gorbachev's willingness to compromise is a calculation of the demands arising in the countries of Eastern Europe for the withdrawal of Soviet troops.

Progress in the reduction of ground forces, parallel with the negotiations on strategic missiles, is indispensable for the establishment of a security structure for Europe which is now in the spotlight. Although an agreement was not reached regarding this at the U.S.-Soviet meeting this time, it has helped to arrange the conditions for taking up the question of German reunification in the future.

The biggest result of the conference, however, is that both sides confirmed a structure of cooperation, while measures for increasing mutual trust were strengthened.

At a press conference afterward, Baker expressed satisfaction with the results. This feeling is undoubtedly shared by Soviet Foreign Minister Eduard Shevardnadze and President Gorbachev.

The expansion of this structure of cooperation and progress in security should not be limited, however, to the two countries and the European region alone.

It is reported that during the conference, discussion took place also on regional conflicts, the problem of Japan's Northern Territories, and the situation on the Korean Peninsula. The problem on the Northern Territories is not solely one between Japan and the Soviet Union, but one that will also affect the Asian region and U.S.-Soviet relations. It is hoped that this will be recognized by both the Soviet Union and the United States.

Government Reacts to U.S.-Soviet Talks

OW1502032590 Tokyo MAINICHI SHIMBUN in Japanese 10 Feb 90 Morning Edition p 2 —FOR OFFICIAL USE ONLY

[Text] At the latest U.S.-Soviet foreign ministerial talks held in Moscow, the northern territories issue was discussed and the Soviet side asked the U.S. side to render cooperation in resolving the issue. Regarding this request, on 9 February, the Government indicated its strong interest, saying that "the Soviet Union has never made such a request in the past," (according to a Foreign Ministry source). Currently, however, the Government cannot make any immediate judgment on whether the request is favorable for Japan, because it has not officially confirmed the substance of the talks and "what specific U.S. cooperation" the Soviet side sought. Therefore, the Government is hastily collecting information through the Japanese Embassy in Moscow.

U.S. Secretary of State Baker, in his remarks concerning Japan-Soviet relations including the northern territories issue at the talks, reportedly called for the return of the territories to Japan; the Government is trying to confirm this. Foreign Ministry spokesman Watanabe on the evening of 9 February indicated a welcoming posture, saying that "if he made such a request, I want to appraise it as a U.S. conception that the normalization of Japan-Soviet relations is necessary for the sake of peace and stability in the Asian and Pacific region."

At U.S.-Soviet foreign ministerial talks in the past, the U.S. side has asked the Soviets to resolve the northern territories' issue on several occasions since the Reagan administration. Therefore, there are views within the Government that "the U.S. request itself is nothing

surprising," (according to the same source). On the eve of U.S.-Soviet summit talks held off Malta in the Mediterranean last December, Japan repeatly asked the United States to consult substantially with the Soviet Union about issues in the Asian and Pacific region, but leaders of the two countries did not discuss the issues because of lack of time. The Government appears to be in a welcoming mood, because the latest talks are believed to have discussed Japan-Soviet relations in depth in the course of consulting on issues in the Asian and Pacific region. It is the first time that Soviet Foreign Minister Shevardnadze has made remarks seeking U.S.cooperation in improving Japan-Soviet relations and for this reason, the Government is paying close attention to his remarks.

This Soviet approach is very close to proposals carried in an article of the latest edition of INTERNATIONAL LIFE issued by the Soviet Foreign Ministry. In the article, Bogatsurov [name as published], a senior researcher of the United States of America and Canada Institute under the Soviet Academy of Sciences, pointed to the "the possibility of the United States' transfering the positive accumulation of U.S.-Soviet dialogue to Japan-Soviet relations" and proposed a strategy under which U.S.-Soviet dialogue is preceded and then Japan is drawn into the dialogue. Regarding the article, the Government at first defined it "as a personal view," but it is now paying attention to it, (according to the same source).

As for measures to foster trust in the Far East, the article cited exchanges of information on the number of troops on Kuriles and in Hokkaido and Sakhalin, and direct contacts between U.S.forces in Japan and Soviet forces in the Far East, and proposed to take up these measures as subjects at the U.S.-Soviet dialogue. If the Soviet side at the talks made the remarks based on the idea of the article, it can be said that the Soviet Union suggested it intends to consult with the United States about measures to bring about trust, arms control, and disarmament in and around the northern territories.

Editorial Suggests 'People-to-People Diplomacy'

OW1502025690 Tokyo THE JAPAN TIMES in English 11 Feb 90 p 20—FOR OFFICIAL USE ONLY

[Editorial: "When Friends Risk Falling Out"]

[Text] Have we ignored too long the indications that trade friction and highly visible Japanese investments in the United States are seriously eroding the good will painstakingly built up between the two countries throughout the postwar years? The latest NEW YORK TIMES/CBS News opinion poll of average Americans suggests that this is so and that the situation is getting worse. The warning is clear: Serious consequences lie in store for the bilateral relationship if both nations do not start now to reverse the developing trend.

There is too much at stake to continue to discuss it in terms of "revisionists," "chrysanthemums," "Japan bashers" and real or imagined racism. One reason for our concern may have to do with the very prevalence of opinion polls in this country. The results of one survey or another are constantly being reported in these pages. Some are conducted by the Prime Minister's Office, some by ministries or other government organs, still others by private sector market researchers. They may not tell the whole story behind the issues they seek to clarify, but they provide a surprisingly accurate image of developing public sentiment—or consensus as we say in Japan.

Despite our cultural differences, we believe this applies equally to the U.S. In mid-January, a random sampling of 1,157 Americans was asked by telephone to describe their feelings about Japan and the Japanese. The results were reported last week. Two-thirds of those replying said they continue to feel "generally friendly" toward this country. But before we rush to congratulate ourselves on that favorable response, we should note that the actual figure of 67 percent was a decline from earlier, similar polls conducted by the same news organizations. Last June, a total of 74 percent—and in 1985, a resounding 87 percent—described their feelings for Japan as generally friendly.

More distrubing still is that in January a full 25 percent of the Americans polled said their feelings for this country were "generally unfriendly." Even allowing for the vagueness of the term, that is an unsettling increase from the 19 percent who expressed such unfavorable sentiments last June and the 8 percent who did so in 1985.

One reason that opinion polls are regarded with seriousness in this country is that they allow the Japanese to express themselves anonymously, since voicing opinions publicly on controversial topics remains difficult for most of us to do. Reservations about the surveys are raised in some quarters, of course, despite today's improved polling techniques. These usually have to do with the number of pollees in a survey sample, how well they constitute a cross section of the public, and whether or not the phrasing of the questions helps too much to shape the answers that the respondents give. After all, some will say, 1,157 Americans is too small a number to be questioned in a country the size of the United States. The polling experts do not think so, however. Those who conducted the NEW YORK TIMES/CBS News survey surely know their business.

For it is not the raw numbers, as they are called, that concern us so much as the trend that they represent. Follow-up interviews were conducted after the January poll was taken and many of the Americans then clearly expressed the fear that they are losing control of their country, their culture and their destiny in the wake of major Japanese purchases of U.S. real estate and corporations.

This is the opportunity this nation has long needed to prove it understands that the real meaning of "internationalization" is no more than mutual understanding.

There will be more trying days ahead in the Japanese-American relationship and there will be times when it seems unnecessarily difficult. There is no assurance that our friendship will withstand the current stresses—although it must.

What we need is people-to-people diplomacy at every level, if you will. The concept originated with the Americans and is overdue for revival. It will require some changes in our behavior although it does not require us to deny the success we have attained. The changes should be a new awareness of how our actions can appear to others, a new willingness not to expect what we do not allow to others, and a new determination to work more closely together. Anything less risks permanent damage to a relationship of equal value to both nations.

Editorial Notes Turning Points in Japan-U.S. Ties

OW1602090390 Tokyo THE DAILY YOMIURI in English 14 Feb 90 p 6—FOR OFFICIAL USE ONLY

[12 February editorial: "'Crisis' in Japan-U.S. Relations"]

[Text] Japan and the United States, even as some speak of a crisis in their relationship, are preparing to start negotiations on various economic and defense issues after the Feb. 18 general election.

Japan's relationship with the United States, which is the axis of its foreign diplomacy, becomes more important than ever.

Even though the campaign period for the upcoming election is already half over, the parties have yet to earnestly discuss ways of moving toward a breakthrough in their relationship. We wonder why.

U.S. Defense Secretary Richard Cheney is scheduled to visit Japan on Feb. 20, and the third round of the Structural Impediments Initiative [SII] talks will be held in Tokyo on Feb. 22 and 23.

These events are significant in that they may prove to be turning points in the Japan-U.S. relationship. What will the Liberal Democratic Party's and the other parties' strategy be on these occasions? The parties must speak out on this issue in order to seek the voters' judgment.

Peace and Prosperity

The Japan-U.S. relationship must not be allowed to deteriorate since healthy bilateral relations also contribute to stabilizing the world situation.

Japan's postwar peace and prosperity have been aided largely by its favorable relations with the United States. Relations between the two nations, which share the common values of freedom and democracy, are now so complex that they can no longer be replaced.

As relations deepen, however, economic tensions intensify. The tone of U.S. criticism of Japan for its immense trade surplus has led to what some are calling a crisis situation.

The SII talks were created as a channel for the two countries to work together to overcome the crisis. U.S. President George Bush, in both the State of the Union address and his budget message, has given clear answers to Japan's requests for improvement of domestic U.S. economic problems. It is now Japan's turn to demonstrate its own sincerity in mitigating bilateral friction.

Security Treaty

At the recent five-way debate between the leaders of the ruling and major opposition parties, one of the five party leaders spoke in favor of abolishment of the bilateral security treaty. We doubt this this leader's political acumen.

The Japan-U.S. security treaty is more than merely a military treaty. We must not forget that the preamble to the treaty states that the two countries will promote permanent friendly and cooperative relations in both political and economic spheres based on the principles of peace and international cooperation.

As for its military content, the treaty states that maintenance and development of Japan's defense forces are "subject to constitutional provisions." The role of the Self-Defense Forces is to respond to limited, small-scale invasions of Japan, while more serious threats will be dealt with by joint Japan-U.S. operations.

This treaty, together with the war-renouncing Constitution, acts as an important obstacle to the creation of a Japanese military superpower.

Although the age of the Cold War is said to be winding down, the military situation in the Far East remains unchanged. Thus, the security treaty will continue to be essential—at least until the day when most nations of the world share the common values of freedom and democracy. The treaty will also serve as a blueprint to realize that day.

Since U.S. influence is waning in the international community, we should be thinking about and seriously discussing what responsibility Japan, with its great economic power, should bear.

Commentary on Changing Ties With United States

OW0602141690 Tokyo ASAHI EVENING NEWS in English 5 Feb 90 p 6—FOR OFFICIAL USE ONLY

[By Keitaro Oguri, ASAHI SHIMBUN editorial writer: "Japan-U.S. Relations at the Crossroads"]

[Text] During his recent visit to Europe, Japanese Prime Minister Toshiki Kaifu kept revising the draft of his speech on administrative policies that he intended to make before the Diet and sent versions by facsimile from his hotels to his official residence in Tokyo. Meanwhile,

Japan Socialist Party Chairwoman Takako Doi was also drafting questions to be posed to the ruling party.

Doi's speech was tentatively titled, "The Other Administrative Policy Speech." The purpose of her speech was to incorporate her ideas on, "What I would do if I were prime minister."

Although neither of the speeches was given, as the dissolution of the lower house ended without a debate, the subject common to both speeches is said to have been, "The Turbulent World—How Japan Should Steer Its Way."

A middle-ranking official of the ruling Liberal-Democratic Party, known as an expert in international affairs, uses this line as an attention-getter when giving speeches: "There is a possibility that a resolution to cancel the security treaty between Japan and the United States may be submitted in the U.S. Congress this year." Whenever he uses this sentence to start speeches to gatherings in his constituency a silence falls upon the audience, he says.

It is not likely that the U.S. Government or a majority in Congress will soon move toward cancellation of the treaty, which commits U.S. forces to defend Japan in the event of an attack. However, it is probably inevitable that further "Japan bashing," rising from economic friction between the two nations, will gush forth in the United States.

It is no longer relevant for Japan to label policy-makers on the basis of their stance on the continuance of the security treaty or to rely on the preconception that the United States will not "let go" of Japan. It is time to consider seriously what to do about the Japan-U.S. relationship as a whole.

Of course, the United States is not the only country that Japan must deal with. It is only natural for Japan to contribute what it can to Asia and Europe and to put stress on improving its relationships with the Soviet Union and North Korea, with which postwar settlements must still be reached.

In particular, Japan has a responsibility to play a leading role in detente and in movement toward a reduction of arms in East Asia.

In order for Japanese foreign relations to broaden as well as deepen, it is key for the Japan-U.S. relationship to be firm.

The Japanese Government has consistently stressed since the end of World War II that "the relationship with the United States is the main axle of Japan's foreign relations." The reality is, however, that inside the axle the metalwork is wearing out and the gears are beginning to creak.

As the power of the dollar dwindled, the United States began to see Japan as a formidable competitor. The U.S.-Soviet relationship is moving toward a less adversarial one. How will Japan react to the changing environment?

One way would be the "gung-ho" course: Why should Japan let the United States, acting the part of guardian, interfere with internal matters such as the nation's economic structure even when the Soviet threat is reduced?

At the same time, such a stance could induce an outburst of narrow-minded nationalism within the country, or Japan could become isolated through a resultant cautious approach or even repulsion from its Asian neighbors.

Or Japan could take the opposite course of "seeking shelter under" the United States—thinking that there is no future for Japan if separated from the United States, that Japan should always follow the United States and comply with whatever demand it makes.

The only way to avoid extremities would be to seek "a mature relationship," although it may not be as clearcut as the above two courses.

Statements on economic cooperation in the Japan-U.S. security treaty, statements which have long been overshadowed by military articles, should be given more emphasis so that economic cooperation can be placed in a larger context. In Europe, political roles of military organizations are drawing attention due to detente. The Warsaw Pact Organization has come to be considered to exert a stabilizing influence in the midst of a shaking East Europe.

In the United States the unfavorabvle atmosphere regarding Japan's economic expansion is intensifying, while in Japan there are growing complaints that the Japanese do not feel affluence in their lives.

Japan has become an economic giant thanks to the government's export drive, which put the enrichment of the people's lives on the back burner. That policy is being criticized harshly at home and abroad.

The Maekawa Report, which was submitted to then Prime Minister Yasuhiro Nakasone, stressed that if the share of the pie given to Japanese workers is increased it would not only accelerate the domestic demand but also damp down the competitiveness of Japanese products.

"It is my mission to take greater care of consumers and to build an equitable community," Kaifu promised during the bilateral meeting with Bush. The statement was in line with the Maekawa Report.

The prime minister is still far from delivering on his promise to Bush, and the idea of regular meetings on policy matters between the U.S. Embassy and the Japan Socialist Party seems to have stalled. Who will be the first to recognize the common problems in domestic and foreign policies and tackle the problem seriously? It is a race against time.

* Honeymoon With U.S. Heads Toward Turning Point

902B0059A Tokyo YOMIURI SHIMBUN in Japanese 29 Dec 89p 2—FOR OFFICIAL USE ONLY

[Text] The cautious attitude of our country toward the progress in talks between East and West and the easing of tensions (detente) was again highlighted in the 1990 defense budget which was decided upon the 28th within the framework of continuing turbulence in the Eastern European countries.

On occasion, the Defense Agency stresses, "It is different from Europe, the conditions in Asia are complicated. It will not be all that simple for arms reduction to proceed in Asia." This assertion has held in check the future of the conciliatory mood between East and West. In particular, they are wary of the fact that the eyes of the public have been focusing only on detente since destruction of the Berlin wall in November. "The fighting power of Soviet troops in the Far East has not diminished." By repeatedly pointing this out, they have dampened beforehand any call for reduction in defense spending which might influence the defense budget formulation.

It can be said that the restoration of the broad slash made in the defense budget at the time of the unofficial announcement from the Finance Ministry's original draft was partially thanks to the strategy of the Defense Agency-Liberal Democratic Party national defense "clique." In a word, the present defense budget reconfirms, by way of budget formulation, recognition of the fact that, while changes in the conditions in Eastern Europe are recognized, "military conditions in Asia still continue to be tense," (Nakayama Taro of the Ministry of Foreign Affairs).

On the other hand, the necessity of stressing consideration for the United States in the 1990 defense budget has made clear that the Japan-U.S. defense relationship has moved from the honeymoon period to a new era.

There were unprecedented uncoordinated starts and stops in the defense relationship between Japan and the United States in 1989. This disjointedness included the problem of the joint Japan-U.S. development of the next air self-defense force support fighter (FSX) followed soon after by the problem of bearing the costs of maintaining American troops in Japan and the movement within the United States to strengthen demands made on Japan.

For the Defense Agency, the shock of 1989 was all the more great because their self-conceit had led them to believe that "the favorable relationship in the realm of defense has become the area for mediation because of the many other sore points such as trade friction, etc., between Japan and America," (Defense Agency leaders).

This time, the so-called "sympathetic budget," which includes reconstruction costs of American soldiers' quarters, is 168 billion yen. This represents an almost 20 percent increase over that of last year. What is more, the Toshiba Machine violation of the COCOM [Coordinating Committee on Export Controls] agreements was used as an excuse for the introduction of an acoustic measurement warship in 1989. Purchase of a second ship this year was included in the proposed budget at the time the unofficial budget draft was initially presented by the Ministry of Finance. This fact also can be nothing more than an attempt to wipe away the shadows clouding the honeymoon relationship between the defense agencies of the two countries.

* Ways of Dealing With 'Japan-Bashing' Analyzed

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[Article by Kenichiro Omae, chairman of Japan McKinsey, Inc., author of numerous books including *The New Wealth of Nations* and *The Heisei Revolution*]

[Text] Americans heap blame on Japan because, they assert, Sony and Mitsubishi have purchased "the American spirit." Is it possible then to purchase the American spirit? Fierce battles are being waged in the course of the ongoing U.S.-Japan information war.

The Differences Lie Between the U.S. and the Japanese Cultures

At present revisionist opinions regarding Japan are being advanced by such figures as Chalmers Johnson, James Fallows and Karel van Wolferen and are well received in the United States. Although their proponents do not possess real, in-depth knowledge of Japan, the opinions expressed could have arisen spontaneously. However, the arguments in question have developed along lines so convenient to the Congress and U.S. trade negotiators that they have managed to become convincing to the United States and the world.

There has now come on stage the translation (pirated edition) of the book *The Japan That Can Say "No"* coauthored by Akio Morita and Shintaro Ishihara. I do not think this book exerts that much influence in Japan, but it has allowed the revisionists to gain more mileage than would be due to it beyond its original weight and significance, under the proclamation that the book reveals the "real" intentions of the Japanese, intentions that they want to hear. Johnson's comment on this book as it appeared in the NATIONAL JOURNAL was: "Conversations of this type may be heard all the time at Japanese golf courses and bars."

The problem here is a lack of a counter-argument from Japanese Government officials, trade negotiators, the mass media, or the experts. This situation has allowed the revisionists to enjoy easy sailing without a check: This is the deep root of all the problems that we face today, i.e., collusion concerning the Yokosuka base, the Toshiba problem, semiconductor trade frictions and the like.

All these are issues in the "Fourth World War." The "Third World War" was the cold war, a "war of words" between the United States and the Soviet Union that did not rely on armament, a war that ended in the total victory of the Americans. The generals of the victorious nation did not emerge from the Pentagon: they included Bon Jovi (a rock singer) and Levi Strauss (producer of jeans.) Right now, a Fourth World War waged by information has erupted between Japan and the United States.

Now is the time Japan needs to arm itself with information. Nevertheless, a lack of readiness in informational armament has resulted in defeat in the initial skirmishes. Similar challenges will arise in the future. Armament is essential for prevention. Preparedness is needed to arm oneself. Of course such talk is not about a real war, but is used by way of analogy. It is an analogy, but it is a serious one. What we need is the kind of resolve that would be required in such extreme instances as a Fourth World War. Armament in such an information war consists of the establishment of procedures to gather sufficient information to fight an informational attack, analyze it, and feed an adequate response to it back to the public. In this respect Japan is totally inferior to the United States.

However, the United States does not consciously carry out such a plan, but it is a nation with the strength for such a battle. In U.S. journalism reporters do not write articles based on government handouts. Reporters begin their careers with local papers, are upgraded to write byline articles, and then go up to the major papers: They then go back to local papers as editors in chief, and if successful, become editors in chief of major papers.

In contrast, the Japanese system of reporters' clubs permits journalists to dispatch government issued news as their articles without any changes; the second page may consist of behind-the-scenes commentary by reporters. In a sense, the reporters themselves live in a world of informational powwows. Their practice of waiting for news to fall in their laps while playing chess leads to no victory in an informational war; they even lack any preparedness for it.

One problem lies with their education, controlled by the Ministry of Education. Education in present day Japan consists of "memorizing what is taught," rather than encouraging "whys" or training in public speaking, the skill that permits the expression of one's own opinion. The one organization specializing in public speaking may be the Oratorical Club of Waseda University. No wonder that club is so prized now. Nevertheless, Mr Takeshita and Mr Kaifu, both ex-members of the club, could not hold their own in fair and square debate in the United States. This level of ability appears to have sufficed to rule Japan.

Courses in public speaking are available in the United States from high school on; the central feature of college classes is discussion. It seems that debating clubs are universal there; general training in the art is at an altogether higher level. Who or what system could fight the information war alluded to on behalf of a Japan packed by reporters oblivious to the basic elements of reporting, a Ministry of Foreign Affairs lacking in ability to gather and analyze overseas information and a MITI [Ministry of Internaitonal Trade and Industry] that finds itself conflicted by continued protectionist policy and dumbfounded by criticism leveled against it? Even in the Prime Minister's Office, an agency without its own minister, there is no one with the ability to cross swords in hot argument with foreigners. The Economic Planning Agency may be a liberal agency on the side of the public, but it does not have the power of negotiation or a voice in external affairs.

To begin with, a lack of awareness that a war is going on is not conducive to decisions about who should have what role or what responsibilities go where. When the United States bombards Japan with rhetorical questions of the type "Isn't it the case that this or that is so?" no one is able to retort "No, the situation is quite different," presenting instead only ambiguous smiles. This is a strategy that permits those who deliberately want to misunderstand Japan to monopolize the field and easily run away with the ball.

Thus we have here a problem of different cultures, rather than a problem of one nation versus another. In particular, the technique that American journalism has adopted is to first advance one view, elicit an opposing one, and hope that in the course of responses to opposing views the correct view will emerge. The technique assumes that if theory A is presented, an opposing theory B will emerge as a matter of course and that thus a continuing argument will evolve.

The Things That Count in an Age of Borderless Economies

The fact, however, is that nobody in Japan has been capable of coming up with theory B. One example to illustrate this point may be given with the case of Mr. T. Boone Pickens: Recently he loudly broadcast on television observations regarding the closed character of thee Japanese corporate culture, citing the practice of firms holding each others' stocks. Since no Japanese rose to refute this view, Pickens' charge tended to carry conviction in the United States. However, I, myself, twice had the opportunity to appear on CBS and Public Television (PBS) to present my own views on this topic. Judging by the fact that I, a person who had hated to appear on television, happened to be the one chosen, it appeared that there existed no other candidates. The argument Pickens brought up as evidence of the closed circles formed by Japanese companies, "Koito is not willing to appoint me, a major shareholder, as one of directors", was not a valid one. Even U.S. corporations have failed to appoint Pickens a director.

Another such example is given by the case of Toshiba Machinery's alleged involvement in a plot almost like that to be found in *The Hunt for Red October*. The initial

reaction of "denial" on the part of Japan came out after so long a delay that the president of the parent firm, Toshiba, in the meantime resigned. Such a course of events was tantamount to an admission of guilt, in effect, "Yes, it's true."

A similar incident then unfolded between Germany and the United States. However, in that case, after agitation began in the Congress about German production of poison gas in Libya, three major German chemical companies immediately presented evidence concerning the quantity of poison gas American chemical companies had been selling to communist bloc nations and to guerrillas as well, and issued a threat to the effect that "if you continue to pursue this conundrum further this evidence will be publicly exposed." The problem then immediately wound itself down as might have been expected. As a consequence nobody in the German companies needed to be fired. This is what it means to take preemptive action, to act in self-defense, for companies in this international society.

In Japan, however, government agencies step out in front before businesses have the time to initiate defensive measures. When this happens, businesses feel they must defer to authority. This is indeed a very unfortunate state of affairs. In the case of the Yokosuka problem, the Fair Trade Commission (FTC) started out by issuing an admission of wrongdoing which signaled acquiescence on the part of the Japanese Government. This declaration placed Japanese firms in a situation where they were precluded from later saying: "No, this was not the case." If Japanese businesses could not agree with the government decision, they should have sued the FTC immediately following the latter's ruling that wrongdoing had taken place. Had this happened in the United States, the American firms would not have taken the FTD's [Foreign Trade Division] ruling lying down and would have sued right away.

Given the FTC's ruling of "wrongdoing", every firm in Japan involved had to pay a surcharge. There was no use arguing after even the Japanese Government had said "a wrong had been committed." Had the Ministry of Construction intervened at this point to say "it can't be so" and had it taken action against the FTC, or if the companies had individually fought back and claimed "my company was not even involved," this internationally disgraceful outcome could have been avoided. However, since the companies were under the thumb of the FTC and had conceded to the latter, "Yes, the case was as you said it was," then they could not possibly argue against the United States and insist "No, we did not collude." These companies did indeed attempt at first to argue to that effect, but they had to turn around in the face of the U.S. threat, "Very well then, we will sue." Given the present state of the government agencies and the lack of an appropriate relationship between government agencies and businesses, as well as between businesses, there does not exist a framework for fighting information wars.

In my opinion, the best way for a company to become international is for it to assert its innocence even by daring to sue the government itself as long as it believes that its actions have been justified. Having once compromised internally with the attitude of "don't fight city hall," and having falsely admitted to wrongdoing, it is impossible to argue that "we are innocent" when the United States makes the accusation. Only what is wrong should be "wrong," no matter who may be making the accusation. A firm can not grow as an international company as long as it does not determinedly pursue its own course, rejecting the pressure of even the Japanese Government itself, whether that of the regulating agency, or of administrative guidance.

Another important point to consider, now that Japan has become a member of the club of advanced nations, is that it is no longer possible to hold "beneath the table talks." A suggestion that "this is between you and me" no longer passes. When former Prime Minister Nakasone uttered an inadvisable remark at an inside LDP [Liberal Democratic Party] meeting about the IQ (intelligence quotient) of blacks and Hispanics, his remarks immediately spread all over the world. As this example has shown, nothing should be said that will cause trouble when translated. The Japanese cannot be full members of international society as long as their habit of differentiating their "real meaning" from "what is proper" is not thoroughly corrected.

A good example is provided by the book mentioned above coauthored by Mr. Morita and Mr. Ishihara. Mr. Ishihara's utterances are, so to speak, "under the kitchen table talk" in the sense he "fights city hall" while remaining a member of the system, the LDP. Mr. Ishihara's lack of awareness of the fact that one can not hold "under the table talks" in an era of the "borderless economy" is itself quite anachronistic. This reveals misjudgment on his part concerning the state of world affairs, a lapse that a leader of an advanced nation should not be guilty of. Had in fact Mr. Ishihara meant to advertise his thoughts, fully aware of the above facts, it would be all right. But then Mr. Ishihara should have avoided use of the expression "We Japanese." Japanese people tend to put "Japanese" after the word "We." The resulting impression is that Japan is a monolith in which everyone is a part of a "We," all Japanese mouthing the same words, i.e., a sinister totalitarian nation unified through holding the same values: Creating such an impression is to fall exactly into the trap designed by Van Wolferen and his cohorts.

When Mr. Morita said "We Japanese," it was not specified in the translation whether "we" meant Sony, the economic individual, or the Japanese nation. As his remark stood, it could be interpreted to imply that the Japanese people were attacking and criticizing the Americans. This was unfortunate. Had the expression "We at Sony" been used, the meaning would have been clear. The platform on which Morita stood should have been made clear before using the word "we." In any case, the relationship between Japan and the United States is not

so simple as to be capable of being described by the use of only two collective nouns (Japan and the United States). Further, I do not believe that overall Japan and the United States are in fact in such a state of conflict.

True, some interests in Japan are in conflict with some interests in the United States. Yesterday's article in THE WALL STREET JOURNAL, "Shintaro/Gephardt," delivered an incisive blow saying: "Gephardt is awful, but so is Shintaro. Shintaro Ishihara is the Gephardt of Japan." The sensitive treatment by THE WALL STREET JOURNAL described Gephardt's behavior as awful and argued that "in response to repeated and unwarranted accusations by this type of person against Japan, Japan has itself produced an Ishihara to retaliate against the United States."

If Mr. Ishihara wants to argue back, he is free to do so. However, please let it not be in the name of "We Japanese." THE WALL STREET JOURNAL knows the distinction. Mr. Ishihara, therefore, should tilt against Gephardt, not against the United States. Those among the Japanese who agree with Gephardt's ideas should support him. It is giving a general label to say that "Gephard is anti-Japanese" or that "Ishihara is anti-American." It is a sign of ill-informed journalism in both Japan and the United States if one responds to any critical comment regarding Japan by labeling it "anti-Japanese" on its face. It is not enough to say "No" to the United States: Please make it clear to whom and what place in the United States you are saying "No."

Although I personally am not in agreement with Gephardt's ideas which are in many ways mistaken, I do think he is an excellent politician in the sense that he states his opinions forthrightly. Mr. Ishihara is also an admirable person in the sense that he states his thoughts explicitly. I share perceptions with Mr. Ishihara concerning the present government and the make-up of the LDP, while, on the other hand, my interpretations and definitions regarding "Japan" are much broader than his.

The Reason Why No Counterarguments Are To Be Heard From Japan

Leaving the matter of ill-informed journalists in Japan to one side, the lack of counterarguments from Japan is responsible for 50 percent of the same phenomenon of ill-informed journalists in the United States. One such example is given by the following: A well known revisionist has stated that "Japan is on the way to rearmament. If Japan develops the FSX, it will sooner or later aim at control of the world aircraft market. Japan is full of ambition in this sector." While not a total fabrication, this statement reflects the reporter's own conclusion from his observations.

The conclusion, based on his own insight or intuition, that Japan has ambitions in the field of aircraft was drawn from the reporter's personal experience: "I inspected Kawasaki Heavy Industries. I also saw the aircraft manufacturing plant of Mitsubishi Heavy Industries in Nagoya. The plant's capacity is vast. While all the machinery is shiny, hardly anything is currently being manufactured. This must mean that a highly ambitious project lies in waiting. Otherwise, such vast facilities would not be necessary." In my opinion, this represents excellent technique of fact gathering and the journalist's observations are astute.

What, then, is the real state of the aircraft industry in Japan? This is an industry where experience counts. As a matter of fact, having long functioned as subcontractor for the U.S. aircraft industry, Japanese industry in this area represents the least developed sector of the nation's high technology, a sector in which Japan may not ever hope to catch up the European and United States efforts. By contrast the United States enjoys overwhelming superiority in the field, the envy even of Europe. The United States is the most advanced in the areas of arms, avionics, and aerodynamics. Indeed, the United States is fully aware that while Japan is capable of producing training aircraft, the manufacture of a new bomber would be beyond Japanese capability.

The procurement system of the Japanese Defense Agency permits a 5 percent profit against the total assets invested in production. Unless some investment in assets already exists, no order will be forthcoming. In other words, if a plant already possesses superb machinery, orders may come with a built-in 5 percent profit. This approach may be viewed as an expression of paternalism on the part of the Japanese state, which tries to somehow foster the defense industry. Hence the display of shiny and even monstrously huge machinery even while the company may in fact be no more than a subcontractor or the plant may be entirely idle. The display is there not because of an ambition to someday conquer the world. Rather it is the system of procurement that calls for this situation. The situation is similar to when would be contractors for construction jobs were required to bring a bulldozer along to get a job. For this reason the leasing business did not develop in Japan. The reporter in question, a "present day Marco Polo," could not see through the real situation. Someone should supply this sort of information to him.

As I happened to know this situation because of my profession, I explained it to the reporter saying, "What a misunderstanding you have made." The argument was settled with the reporter saying, "Oh, it's the same in the States too."

The same journalist stated that "Akio Morita is a nationalist." I answered that "No, Mr. Morita can't be a nationalist since he is the person in Japan who most ardently exhorts Japanese companies about the necessity to become global." His response was "Read *Made in Japan* [by Morita]. The book is nationalistic from the beginning to end. He writes that Sony's success is success for Japan, that Sony tries hard for the sake of Japan."

Made in Japan certainly is Mr. Akio Morita's autobiography. The book does state that "if Sony becomes prosperous, Japan will be prosperous. I have striven for

Japan since the war's end." When, after the war the "developing nation, Japan" had a GNP of $500, Mr. Morita must have exhorted workers to be diligent by declaring "work hard for the company; that will also be good for the nation" in preference to saying "work hard for me," which might have made him seem selfish. Every company must have gone through a similar phase.

I further explained the situation as follows: "Such a fact might have held true in the Japan of the past. However, an interpretation to the effect that the Akio Morita of today seeks to make Sony prosperous for sake of the Japanese Government would be too quick a judgement to make. The Sony of today is a world enterprise which works for Sony customers all over the world. A company that works only for its "own country" cannot be successful in the world market. Such a company can hardly exist."

What the journalist said was not so much a mistake as his particular interpretation. There certainly are such statements in the book, but they are subject to double-entendre. The phrases "for the company" or "for the nation" that we are in habit of uttering are actually the most detested expressions in the world. They are misinterpreted to mean that "the Japanese don't work for themselves but for their company. They are nationalistic." Nobody in Europe or the United States would utter the saying, "for the nation." Only developing nations use the expression. But as Japan has not yet cast off the remnants of the mentality of a developing nation, circumstantial evidence of a "nationalist Japan" still abounds if one looks for it.

I told the reporter that "such a phrase might indeed have been in the book. However, isn't it a mistake to jump to the conclusion that Morita is a nationalist solely because of this phrase and then to further deem Sony to be an instrument of national policy?" The reporter then felt that he had gained a little more insight into the situation. In this exchange when the journalist had made an observation A, a different interpretation B was promptly presented, which had the effect of imparting to him a partial understanding. Although the journalist still hedged by saying, "I am not yet fully convinced that Morita is not a nationalist," he could not, in the face of opinion B, continue to present his one-sided view in an unchecked manner.

If an argument escalated without any check, a problem would become tangled. A good example of this is the semiconductor negotiations. When Japan accepted all the demands, the United States pressed further saying, "Why less than 20 percent, while your promise was to buy 20 percent?" The game ended there when the promise to purchase 20 percent of the products was given in the initial skirmish. As long as this promise is not fulfilled, Japan is labeled as "a nation that does not keep promises" and the blame on this score will persist.

It is obvious how important it is to win initial skirmishes as seen in the cases of Toshiba Machinery, the collusion regarding the Yokosuka base, and the semiconductor negotiations. It is important to have an argument for both pro and con in such cases. In the absence of a con argument, an argument which is partially true or filled with misunderstandings, tends to have a field day in the U.S. mass media. Provoked by the tendency on the part of our negotiators to adopt such expressions as "We Japanese" or "We, the Japanese nation," U.S. criticisms also tend to take the tone of "The Japanese" or "The Japanese nation." Unless this framework is broken, the U.S.-Japanese relationship will only deteriorate. The reason for this is that U.S. journalists will go on looking for such contradictions, because they can use them to continually sell articles.

How To Win the American Heart

How do we present such con opinions? While there were many requests to write to the effect that "nothing is wrong with the purchase of the Rockefeller Center," I turned them all down. For it would be a child's quarrel to argue back "What's wrong with it?" in response to a charge of having committed a misdeed. Instead I sent an article to THE WALL STREET JOURNAL written from an entirely different point of view.

The content of my argument went as follows: "Before going into the question of why Mitsubishi bought Rockefeller Center, we must determine why the Rockefellers decided to sell it. With such a beginning the reader will understand at once that Rockefeller Center did not belong to the American public, but rather was owned by David Rockefeller.

Secondly, the reader will learn that the Rockefellers wished to convert their real estate holdings into cash in order to increase the liquidity of their assets. Their purpose was to enhance the efficiency of asset management for the Rockefeller family as a whole through investments yielding higher profitability; they also might have had inheritance tax considerations in mind. The reader will then find that the Rockefeller group's assets have almost entirely been converted into liquid assets over the past 10 years, leaving them with little by way of real estate. He thus would begin to think in the first place about the Rockefellers' reasons for their decision to sell.

The third point the article will make is: Now that it has become obvious that David Rockefeller was a free agent in making the sale, the reader will understand that from the Rockefellers' point of view Mitsubishi is probably the most reliable and benevolent investor in the world. The holdings of Mitsubishi Estate are the richest holdings in the world. It also has a solid record of orderly development in Tokyo's Marunouchi district. It was thus almost guaranteed that this company would carry on in the tradition of the Rockefeller name. In my opinion, the choice of Mitsubishi was thus quite an appropriate one considering the various factors, one of them being that Mitsubishi's objective is to acquire attractive properties

on a long-term basis even if the short-term profits to be expected might be low, and another that sums involved were very large.

And this is only a tip of the iceberg. American investment bankers and lawyers with their attache cases filled with proposed deals like this have been swarming all over Tokyo. A more correct picture of the situation that exists is rendered by the statement that Americans have been wholesaling rather than that the Japanese have been hunting for buys. All sales in fact consist of selling and buying. The important fact is that sellers are swarming over Tokyo. It lacks balance to publish articles which publicize only Japanese buying. This fact must be understood by the reader.

Further, it is quite advantageous to the United States to have dollars return home to the United States. The situation is analogous to an infusion of immigrants. Immigrants work for a lower wage than do established residents: They work hard and climb up the ladder on their own. This is why I describe money invested in the United States from abroad as "immigrant dollars," since it serves to stabilize American society by accepting low interest rates just as immigrants accept low wages. The dollar from Japan expects to earn an annual rate of 7-8 percent; the domestic dollar in the United States, rather than remaining satisfied with government bonds that earn 9 percent, seeks out higher yielding junk bonds with 15 percent interest, or other financial vehicles with even higher yields.

In contrast, investments in real estate earn at most 7-8 percent. The U.S. financial world can enjoy stabilization because the Japanese dollar occupies an immigrant's position supporting the foundation of society. If everyone ran after high interest of 15 percent or 20 percent, the resulting unstable economic conditions would be easy to imagine. Immigrant dollars support American society's very foundations.

Besides, once settled, immigrants become "naturalized" and eventually contribute to U.S. development as Americans. And as far as I know, Japanese dollars likewise do not immediately withdraw upon earning initial profits. Much the same as with immigrants, Japanese dollars come to work as American dollars. Money from Japan functions as do U.S. dollars. Consequently, the $800 million the Rockefellers raked in will give rise to other investments that circulate in the U.S. economy with beneficial effects. Think of immigrant dollars as willingly performing work disliked by others: They contribute to the stimulation of the U.S. economy; besides, U.S. land assets cannot be brought back to Japan.

There exist those who warn to the following effect: "The U.S. economy will collapse if all the Japanese investments are withdrawn in case of an emergency." But if an emergency loomed, the first ones to send dollars out of the United States would be Americans. There is no mistake about this: Japanese investments will remain in the United States till the end. The reason for this is that the greed of American investors is far more advanced than that of Japanese investors. The persons who transfer their asset abroad when the American economy faces a crisis will unmistakably be U.S. investment bankers and annuity fund managers.

When the United States ceases to be attractive, it will be U.S. capital that will pour out of the United States first. It is not logical to cry "wolf" and blame an imagined exodus of funds on foreign investors. U.S. investors naturally demand the transfer of funds abroad when called for; annuity fund managers who fail to do so will be fired. The thought of a financial crisis caused by withdrawal of funds by foreign firms does not make sense in this borderless economy. Instigation of a feeling of crisis by way of a distinction between internal and external capital does not stand on a firm basis.

If an argument is developed along these lines a majority of Americans will understand.

A Triadic Way of Thinking about Japan, the United States and Europe.

When attacked about Japan's wrongs, my response is to cite a parallel European case. For example, if Mr Pickens complains "Americans can't buy Japanese companies," I riposte thus: "Which is more difficult, buying a Japanese company or a German company? Isn't it more difficult to buy a Swiss company than a Japanese company?" The answer is of course "yes." Since at present the Japanese do not retort with any con argument, it is only the supposed closed character of Japan that stands out conspicuously.

In fact a thorough knowledge of the triadic (Japan/the United States/Europe) microeconomy in each nation becomes indispensable to the advancement of an effective argument about economic relations in an international arena.

In my own experience, the purchase of a business is very difficult in Europe, with the exception of Great Britain. This fact is well recognized. Every American entrepreneur knows it. If Americans begin to talk about similar problems in Europe, ask thus: "Wait a minute, the problem is really in the United States. What about selling a company, piece by piece, after acquiring it, what about responsibility toward the employees? As an entrepreneur, what do you think of causing hardships for employees and subcontractors while making only stockholders happy? As a government official, what would you think of having created such a national system?" Often the force of an argument will turn on the United States: "Yes, this is really a serious problem in the United States." A change of thinking can thus be engineered through the presentation of a con argument.

Keep arguing this way: "You are alarmed by the purchases of Rockefeller Center and Columbia Studios: Hasn't Ford bought Jaguar, the pride of England? Aren't you enjoying a faint taste of victory? What do you think of the fact that one out of five automobile companies in

the EC are essentially American owned, American firms have realigned all concerned in England and Germany? U.S. companies bought the chocolate manufacturer Godiva, the pride of Belgium, as well as the atheletic shoe company, Reebok, with the mark of the Union Jack on it. Have you thought about these cases, imagining yourself to be a European? Then isn't it quite unbalanced conduct to raise up a hue and cry over the purchase of Columbia or Rockefeller Center?" Americans will then come to admit "it could not be helped. The cause was Baker's mistaken currency policy."

The basic problem did lie with U.S. currency policy. Americans were not made aware that their nation as a whole would become a bargain, for currency is the foundation of a nation.

At present, the most internationally competitive commodity the United States possesses is its land, American resorts, American buildings, and American companies. It is a mistake to manipulate currency in order to correct a trade imbalance. A U.S. policy on currency that cares only about the balance of trade, the flow of merchandise, while forgetting about U.S. assets has invited today's situation. All the root problems lay in the Plaza agreement, wherein Volker and Baker set a policy of devaluing the dollar. This was not what the Japanese Government wanted. When I comment that "didn't Baker wrestle everyone down at the Plaza Hotel overwhelming reluctance on the part of Japan and Europe?" the listener's attitude gradually begins to change.

For a successful presentation of counterargument B, it is essential to be knowledgeable at the level of micro-business. For example, one has to be able to present at least 10 cases of difficult business acquisitions in Europe. I know many cases of company purchases in Japan, for I have directly or indirectly had a hand in them.

Another important point is that arguments must come from what you yourself believe. While the opposing journalist's understanding in discussing Japan might have been at a superficial level, his style of argument tended to be rather emotionally involved based as it was on concrete examples. One has to accustom oneself to discussions of this style. The effective technique of presenting a counterargument is to amplify your viewpoint and style by going through the citation of examples in Europe or of the listener's own past experiences in the United States. There is no need to have your adversary accept argument B. Present day U.S. views on Japan will gain considerable breadth solely by Americans coming to understand that there is some truth in both sets of logic that underlie A and B. Once this is accomplished, the proponents of today's one-sided and dangerous arguments that have served to deteriorate the U.S.-Japan relationship will decrease in number.

The virtue many Americans possess is that they understand the merit of convincing evidence. These Americans do not often finish their argument in a state of emotional confrontation. However in the absence of a counterattack, their tendency is to keep charging forward in the belief that their opponent is weak. This leads to an American conviction that the claims they have made are indeed "fact."

Japan, on the other hand, has no realization that it is involved in a warfare of information. But even if Japan wished to engage in information warfare it does not have the generals, sergeants, or soldiers for it. The problem lies in the way the Japanese have been brought up. If a Japanese had been trained to at every turn inquire, "Why is what you say so?" he could not look forward to promotion in Japan's business world; or he, having incurred his teachers' displeasure, would have turned into a delinquent while in school. Unless the Japanese keenly realize that they are actually engaged in a fourth world war, mutual national feeling between the United States and Japan will only deteriorate. Continuation of a levee-building diplomacy will not suffice. The Japanese cannot tolerate a U.S. opinion survey that has actually stated that the Japanese economy is more of a threat to the United States than the military one the Soviet Union poses.

The most important point to call attention to in this regard is that "the U.S.-Japanese trade imbalance," the original alleged problem, is nothing but a fabrication. To begin with no external trade exists as far as the United States is concerned. As long as Americans may import using their own currency, there exists no "foreign trade" for Americans. Given the use of its own currency foreign trade for the United States is no different from domestic commercial distribution.

Where then does the real problem lie? Real problems for the United States are its "national budget deficit" and for Japan the "Japanese structural problem." For both nations the real tasks at hand are domestic. The talk today is of the end of communism. As the cold war comes to an end and disarmament progresses, the U.S. budget will come to be balanced. When this happens, the dollar will be stronger while the yen weakens. Not only is communism coming to an end, but so is American-style capitalism. The excessive pursuit of profit has caused American capitalists to too readily sell their firms piece by piece. This is the real problem. Both nations try to gaze outward for the source of their problem while averting their eyes from domestic shortcomings that seem too difficult to remedy. The Japanese Government is now reluctantly attempting to solve its structural problems with the aid of Mrs. Carla Hills, the present day General MacArthur. Given the reluctant attitude of the Japanese Government, Japan cannot achieve drastic change. However, if Japan does not all at once grapple with the accumulated problems of the past 10 years, with what I call the "Heisei Revolution," it will be mauled in the worldwide information war.

* Changing U.S. Views of Japan Examined

902B0047A Tokyo YOMIURI SHIMBUN in Japanese 6 Dec 89—FOR OFFICIAL USE ONLY

[Article by YOMIURI New York Bureau correspondent, Tsutomu Okamoto]

[Text] A new campaign based on revisionism is spreading rapidly in the United States. It suggests that "Japan is a unique country. Let us modify our approach to Japan." I will explain its background and the true sentiments behind it.

It appears as though American feelings toward Japan are deteriorating daily.

The symbol of this mood is revisionism. This ideology first defines Japan as "a unique country different from Europe and the U.S.," and contends that "it requires a different approach in relations with Japan compared to other countries."

The persistent never-improving trade deficit with Japan has directly affected the rise of this new opinion.

There has been since the beginning an intention to offer a cool and academic answer to the irritated Americans. "Successive prime ministers of Japan have made promises to reduce the trade surplus and open the domestic market. Also, the Maekawa report was issued, which proved Japan's commitment to economic structural reform. The yen has been dramatically pushed high. Why, nevertheless, hasn't the American trade deficit with Japan been reduced?" (Professor Chalmers Johnson, University of California, San Diego Campus)

Americans are most irritated by Japan's industrial policy which endorses government protection and nuturing of basic industries. U.S. industries traditionally hate government interference, and that is the concept of their free economy. The conventional view is that Japan's economy is the same as America's, but the revisionism alters that view and assumes that Japan is unique.

What I fear is that this pointing at the uniqueness has taken on a life all its own. Furthermore, (1) it has gone beyond the economic dimension of protectionism replacing free trade, and (2) it has reached a point where Japan's economy and culture are judged as too unique for Europeans and Americans to understand.

Additionally, what is more dangerous is the emotional involvement of both sides.

"Containing Japan" written by James Fallows of ATLANTIC, an American magazine (May issue) is used as a rationale to justify this trend. The paper is a monumental work which gave impetus to popularization of revisionism, and it asserts: "Unless, at some point, we check Japan's economy which steadfastly aims at advancement, it will adversely affect not only America but also global free trade."

Fallows himself is not necessarily expressing his opinion for protectionism. However, in Washington, D.C., particularly in the U.S. Congress where the trade deficit with Japan is being discussed day and night, this paper is considered a god-sent reinforcement jabbing at the "weak underbelly" of the administration.

What poured fuel on the fire of this revisionism is the book, "The Japan That Can Say 'No,'" coauthored by Shintaro Ishihara and Akio Morita. Its publication timing was very disturbing, as it was printed at the time when the revisionism was gaining popularity. The content was also full of assertions provocative to Americans, for example, "If American external pressure persists, Japan will export semiconductors to the Soviet Union." In addition, the translation was a pirated version which was an injustice to the readers. "It is generally misunderstood and looked at as unreasonable self-indulging Japanese writing their true feelings for the first time," (Ronald Morse, special assistant to the director of the Library of Congress).

As an argument on the second point, we can say that "it is natural that culture and society differ in different countries. However, at the Japanese- U.S. Financiers conference in last summer, Senator John Heinz, an American observer, unflinchingly remarked: "We cannot understand the Japanese people. They are different from Americans who have European roots."

This style of speech, an outright expression of his emotion, has its own background. That reflects the honest fear of boisterous shopping sprees for American real estate and businesses by Japanese capital. To make things worse, around the same time businesses such as Columbia Pictures and Rockefeller Center which are symbolic of America, fell into the hands of Japanese businesses.

Ishihara and his partner state, "It is an indication of racial prejudice since criticisms are directed only to Japanese businesses." Americans, however, seriously disagree with this argument since they consider it a social mission to wipe out racial discrimination. Therefore, "If you mention racial prejudice, you will only complicate the matter," (Professor (Imerman), Columbia University)

Revisionism, as represented by Professor Johnson, originated with a cool economic theory. It shifted to an emotional argument before we knew it. I am certain that "Japan" will be a topic of conversation in America, for better or worse, during next year's Congressional election in the United States. It is more than possible that revisionism will be utilized as an instrument of Japan bashing on such occasions.

However, there is also a prudent analysis: "The majority of advocates for this revisionism are Democrats. Their true intention is to use this trendy perception as a lever to criticize the Bush administration. They must be rather amazed by Japan's overreaction," (Morse).

Companies Puzzled by U.S. Attitude Over Autos

OW1602062990 Tokyo THE JAPAN ECONOMIC JOURNAL in English 17 Feb 90 pp 1, 12—FOR OFFICIAL USE ONLY

[By staff writers Tsuyoshi Sunohara and Mark McQuillan]

[Text] Ten years ago this week, Douglas A. Fraser, then president of the United Auto workers [UAW] of the U.S., arrived in Tokyo with a warning.

Unless Japanese automakers started investing in the U.S., he said, a trade war was likely to ensue over the flood of car exports to the American market.

Fraser, noting that more than 100,000 U.S. autoworkers had recently been laid off, backed up his words with a threat: His union members would boycott Japanese cars if the automakers failed to start producing overseas. Today, his warning seems painfully ironic.

Every major Japanese automaker now has at least one manufacturing plant on line in the U.S. Overall production is 850,000 vehicles a year—and it's expected to swell by a quarter of a million in fiscal 1991. But the automakers' surging presence in the U.S. is seen as a potential flashpoint for "investment friction" in the '90s.

"Investment Friction"

"We've built plants in the U.S., hired a lot of American employees, transferred our production technology, and maintained voluntary export restraints," says an executive at a major Japanese automaker. "So, how can we be criticized?"

Well, for one thing, the Japanese presence comes at a time when most analysts see the U.S. passenger car market shrinking to below 10 million units. Inevitably, there will be corporate casualties.

For another, tens of thousands of jobs are expected to be lost at U.S. car companies. About 140,000 workers were temporarily laid off in January alone. The UAW, which naturally assumed it would be able to unionize Japanese automoble transplants, has been frustrated repeatedly in its failure to do so.

And while Japanese automakers buy 58.6 percent of their parts from domestic manufacturers, about 80 percent of those purchases seem to come from Japanese parts makers, who followed the car companies to the U.S.

Growing Concern

But, mainly, many Americans are edgy over the prospect of yet another vital industry slipping out of U.S. hands. A reflection of the mounting concern of U.S. automakers was the announcment last week that General Motors Corp. and Chrysler Corp. will jointly produce auto transmissions—the first such tie-up among big American car companies.

What's more, there is talk in Washington of limiting the Japanese share of the U.S. market—with one proposal going so far as to count locally produced cars as "imports."

Japanese carmakers are aware of the U.S.'s uneasiness. Earlier this year, they agreed to continue the nine-year-old "voluntary restraint agreement" on exports to the U.S. And they point out that about 25,000 Americans now work at seven Japanese auto plants in the U.S., and that the figure is bound to climb as Japanese production increases.

In most cases, the wages are lower than those paid at U.S. auto plants, but the benefits are first-rate and the working conditions usually excellent, they say.

Yet, surprisingly, top company executives seem largely unconcerned that investment friction will increase.

Shoichiro Toyoda, president of Toyota Motor Corp., recently suggested the manufacturers are feeling little inhibition about boosting their U.S. production and sales in the years ahead. He dismissed the counting of made-in-U.S. cars as imports as a "peculiar" idea.

At a Tokyo press conference last month, Mazda Motor Corp. President Norimasa Furuta said: "We Japanese carmakers... will pay close attention to avoiding confusion in the U.S. market. But exporting from Japan is one thing and local production is another."

According to Japan Automobile Manufacturers Association Inc., nine Japanese carmakers decreased their passenger car exports to the U.S. by 9.9 percent in 1989 from a year earlier, to 2,013,153 units.

By 1991, exports should fall below 2 million units. But by then their production at U.S. plants in Kentucky, Ohio, Tennessee, Illinois, Indiana and Michigan will rise to about 1.1 million, up about 250,000 units from an esxtimated 850,000 the preceding year. That would give them a more than 30 percent share of the U.S. auto market. Toyota alone will boost production in the U.S. and Canada this year by more than 60,000 units, to 330,000 according to a company source.

"We expect our sales to increase even if the total U.S. passenger car market shrinks to around 9.5 million units," a company source said. Toyota registered a 7.3 percent share in 1989, trailing only Honda Motor Corp., at 7.9 percent.

Honda, the first Japanese carmaker to launch production in the U.S., will expand manufacturing at its newly built assembly plant in Ohio, its second factory in the state. The company aims to sell about 850,000 units in the year through March 1991 in the U.S., raising its share of the market to around 9 percent, according to Shoichiro Irimajiri, a senior managing director.

Fuji Heavy Industries Ltd., Mitsubishi Motors Corp. and Suzuki Motor Co. are following suit.

Big Three's Struggle

The sharp decline in the U.S. passenger car market is partly due to high interest rates in the U.S., but it is also attributable to the Big Three's strategy of selling out their

1989 inventories through sales incentives and price reductions, says one analyst.

"Chrysler, for example, offered a no-interest loan in 1988 to sell out its inventories," he said. "Then, U.S. carmakers raised the prices of 1990 models by 4-5 percent." That, he added, is no way to hold on to a market.

GM's market share for 1989 declined to 34.7 percent from 35.9 percent in 1988, and Chrysler's fell to 10.3 percent from 11.2 percent. Only Ford Motor Co.'s rose, from 21.5 percent to 22 percent.

Japan's growing presence will drive America's Big Three into further difficulties, with Chrysler in the most vulnerable market position, say industry analysts. But if so, Japanese industry executives insist, the fault will squarely lie with the U.S. companies themselves. From adhering to the voluntary export restraint agreement to the move toward offshore production, the Japanese firms say they've done everything the Americans have asked them to do.

And, they add, while the U.S. manufacturers have made strides in the last decade to become more competitive, they have not gone far enough.

U.S. Firm's Advance Into Japan Said Stalled

OW0702213690 Tokyo THE JAPAN ECONOMIC JOURNAL in English 10 Feb 90 pp 1, 6—FOR OFFICIAL USE ONLY

[Article by staff writer Waichi Sekiguchi]

[Text] A U.S. company that sells children's toys is hardly the kind of enterprise usually associated with creating tension in U.S.-Japan relations.

But when Toys R Us Inc. last month announced plans to open a 5,000-sq.-meter discount toy store in Niigata City on the Sea of Japan, it set in motion yet another bilateral debate about Japan's openness to foreign companies.

The reason: Toys R Us planned store runs counter to a Japanese law that prevents retail outlets of more than 500 sq. meters from opening without the approval of nearby mom and pop shopowners.

For years, the powerful Ministry of International Trade and Industry [MITI] has been trying, with limited success, to liberalize that protective law.

Now, Toys R Us bid to enter Japan is becoming a litmus test of the Japanese government's willingness to push ahead with liberalization of the byzantine retail network.

The plan of Toys R Us, which has 580 stores in the world and annual sales of $5 billion, is expected to have local and national repercussions and would likely pave the way for other foreign retailers to open their own stores in Japan.

For consumers, the result would be lower prices, since the company wants to sell toys, many of them made in Japan, at discount prices using its international purchasing network.

But in Niigata itself, toy sellers are up in arms about the impact that a giant toy retailer would have on their business.

"I know international cooperation is very important for Japan, but I don't understand why small toy retailers have to become a target for the U.S.," complains Masao Sakurai, owner of Hinoya Toy store, a local toy shop chain in Niigata. "Toys R Us plan means that we'll be killed."

Nationally, the firm's proposal is putting pressure on MITI to liberalize the store law as soon as possible. And that's not an easy task unless MITI can reach agreement with the Ministry of Home Affairs, which administers local governments, and with other special interest groups.

According to Toys R Us executives, the company has been awaiting a change in the law before plunging into the Japanese retail market.

Initially, the company says, it hopes to open a Niigata store by late next year and eventually plans 100 units throughout the nation.

Last fall, the company established a subsidiary in Tokyo in which McDonald's Co. (Japan) is set to have a 20 percent stake.

For Niigata, the Toys R Us plan has already generated considerable hostility.

The 63 toy stores in the city, including department stores which sell toys, have combined annual sales of Y4.4 billion, according to a 1988 MITI survey. Toys R Us anticipates annual sales of Y5 billion in Niigata alone.

Kisaburo Yarita, chairman of the Federation of Japan Toys and Dolls Stores Associations, says the number of toy stores in Japan peaked at 8,000 a few years ago and has fallen to 6,000 now. The toy market in Japan is estimated at Y700 billion.

In reaction to Toys R Us's plan, members of the All Japan Associated Toy (AJAT), a toy store "voluntary chain" of independent retailers, last week started organizing a nationwide anti-Toys R Us campaign.

Takashige Seki, president of AJAT notes that Toys R Us could devastate the Japanese toy market.

"In Britain, the number of toy stores deceased from 6,000 to 1,500 in 10 years due mainly to Toys R Us's expansion," he says.

Using Political Pressure

What worries some retailers and government officials are the company's reported strong links to U.S. Government officials pushing for structural change.

Charles Lazarus, the company's chairman, has explained to U.S. Trade Representative Carla Hills the firm's plan to enter the Japanese market.

Hills became interested in the company because Toys R Us is the first major U.S. retailer trying to enter the Japanese market by opening its own stores. During her visit to Japan last fall, Hills cited Toys R Us when she expressed concern about the slow procedures for opening stores in Japan.

Further, when the company announced its plans at the Niigata Chamber of Commerce Jan. 19, executives implied that if they don't receive approval to open stores, they will likely appeal to the U.S. Government.

According to Joseph R. Baczko, president of Toys R Us-Japan Ltd. and Toys R Us International, the company has "been looking for a chance to enter the Japanese market for many years."

And it received encouragement last June when MITI published a report, "Vision of the Japanese Distribution Industry in the 1990's," that indicated the ministry's willingness to relax the law.

MITI's Power

MITI's problem is that it may not have the power to carry out its liberalization plan.

That's because local governments impose many restrictions on retail establishments as a way to support the existing law for the benefit of small retailers.

According to a MITI survey, although the large store law regulates retail stores over 500 sq. meters in floor space, 991 cities and villages have their own rules that regulate stores smaller than 500 sq. meters.

Further, 105 cities and villages require large retailers to reach agreement with local retailers before they submit applications with the local government.

"This means more than one-third of the local governments impose their own restrictions," says Kazuo Kaneko, MITI's director for large retail stores coordination.

Last September MITI was supposed to notify local governments of its policy to prohibit excessive restrictions by local governments in favor of local retailers.

MITI postponed notification because it has been unable to reach agreement with the Ministry of Home Affairs.

"We could have sent the notice last September, but we thought it won't make sense if nobody followed it," says Teiichi Yamamoto, MITI's director general for commercial affairs.

The large store law empowers local governments and retailers to hold regular meetings to control commercial activity in each area.

Yamamoto indicates that notices will be sent in March in time for the interim Japan-U.S. report on the Structural Impediments Initiative talks. "But it doesn't mean that all applications will be accepted," he adds, referring to Toys R Us's application.

While Toys R Us is a pioneer in Japan, other large foreign retailers appear poised to enter Japan after the retail stores law is relaxed.

Breakthrough for Newcomers

Last week, for example, Sears, Roebuck and Co., the world's largest U.S. retailer, announced a plan to open a store to sell car accessories and apparel.

Sears has set up a joint venture company with the Seibu Saison Group and eventually plans to open a chain of stores. the first store, however, would be some 500 sq. meters and would not be affected by the current law.

"If Toys R Us's plan is accepted in Niigata and other cities, that will lead major domestic super stores to open similar type of stores," says Yoshinori Tsukuda, president of Tsukuda Co., Japan's largest toy wholesaler.

Partly for this reason, such major stores as Daiei, Seibu and Jusco have not opposed Toys R Us's plan in Japan.

Editorial on U.S. Corporate Research Spending

OW0702202490 Tokyo THE JAPAN TIMES in English 6 Feb 90 p 20—FOR OFFICIAL USE ONLY

[Editorial: "Changing the Emphasis in R and D"]

[Text] Recently released statistical results of a survey by the U.S. National Science Foundation indicate that growth in American corporate research and development spending lags behind the inflation rate there. This means that R and D is falling in real terms, which may be an ominous sign for U.S. industrial competitiveness. The survey results are not definitive since they include estimates, but nevertheless they are troubling.

Both Japan and West Germany allocate far larger percentages of gross national product to corporate research. In the U.S., share prices of manufacturing companies with high R and D expenditures tend to fall because they appear less profitable over the short-term. American corporate raiders slash research budgets after successful acquisitions, one interpretation of this being that Wall Street does not like high R and D expenditures, despite the fact that the long-term future of many companies may well depend on them.

Yet some U.S. companies are achieving dramatic results from their research. A prime example is the simple optical computing device unveiled last week by scientists

at American Telephone and Telegraph's Bell Laboratories. It could serve as the foundation for practical optical computers a decade from now.

Instead of relying on electrons moving through silicon-based microchips as in today's computers, the optical information processing device uses photons speeding through systems of lasers, lenses, and mirrors. This could permit the accomplishment of computing tasks much faster than the electron system. The technique is still in its infancy, however, and further research needs to be done before the manufacturing techniques for the necessary hardware are mastered.

Americans have often called Bell Laboratories a "national resource," but "international resource" might be more appropriate. From the early postwar years, many innovations in electronics and computing developed from basic research conducted at these laboratories. Much of the technology was then licensed to corporations abroad—Japanese companies included—for what are now considered extremely low fees. Today's conditions are forcing Bell Labs to take a tougher, more businesslike approach.

A major issue facing corporate scientific researchers in the U.S. today is the declining importance of the kind of military contrats on which many companies have relied. For several decades, half of all American R and D reportedly has been funded through the federal government, the major part of that originating from the Department of Defense. But the revolution in Eastern Europe that has led to the winding down of the Cold War is already causing reduction in some U.S. defense procurement.

Yet voices have been heard in some quarters here calling for greater R and D funding for the Defense Agency's Technical Research and Development Institute. Its budget might appear tiny in comparison with what has been standard for the U.S. Defense Advanced Projects Research Agency but it has been more than sufficient for this nation's needs. Innovations in military equipment here tend to be driven by advances in commercial technologies, especially microelectronics, new materials, telecommunications and new manufacturing techniques.

There are now strong indications in the U.S. that military dominance of research projects will decrease in the coming decade, requiring private corporations to budget more of their own resources. Some industry groups are calling for heavier federal funding assistance to restore American competitiveness. Statistics from the Organization for Economic Cooperation and Development (OECD) show that corporate research spending is growing much faster here than in the U.S. If the trend continues, American corporate competitiveness could be seriously compromised.

The current concern in this country is that Japanese corporations have minimized basic research while emphasizing engineering and product development. It is gratifying that those companies with substantial R and D budgets now are assigning higher priority to fundamental research, even while keeping product development teams hard at work.

Japan's business world generally regards R and D funding as an investment in future corporate health and earnings potential. American companies would stand to benefit in the long run by taking a similar perspective, if they can do so while satisfying shareholder demands.

Report Analyzes Lack of U.S. Competitiveness

OW2901031190 Tokyo MAINICHI SHIMBUN in Japanese 27 Jan 90 Morning Edition p 9—FOR OFFICIAL USE ONLY

[Text] The Fuji General Research Institute on 26 January released a research report, entitled "Problems Concerning Japan-U.S. Trade Frictions." Efforts at adjustments in the macroeconomic areas between Japan and the United States continue in an attempt to redress the trade imbalance, which exceeds $45 billion (last year's actual amount) annually. However, the weakened competitiveness of U.S. industry—in quality control, merchandise development, and other non-price areas—has become a factor hampering the redressing of the imbalance through marcroeconomic adjustments. In the United States, programs have been strengthened, including at the government level, to improve industrial quality. However, the Fuji report points out, "The current management attitude of U.S. business, which attaches more importance to short-term profits, is leading to a decline in competitiveness." It is not easy to correct this traditional entrepreneurial nature of U.S. industry and, due to the stalemate in correcting the imbalance, a further intensification can be expected in Japan-U.S. trade frictions.

The price competitiveness of U.S. industry has improved remarkably owing to the depreciation of the dollar since the Plaza Accord in September 1985 and because of increased labor productivity. However, the U.S. trade deficit has not significantly decreased, and attention is now turning to the competitive power of U.S. industry in non-price areas.

The report cited the following non-price factors as affecting the competitiveness of U.S. commodities: 1) management attitudes; 2) investment in research and development [R&D], and the capability for technological development; 3) product quality and reliability; 4) the quality of the labor force; and 5) export promotion policy.

One of the notable factors is U.S. business's "easygoing attitude" toward research and technological development. In the 1960's the ratio of U.S. R&D expenditures, excluding those for defense-related projects, to the GNP (gross national product) used to be very high, almost double that of Japan's. But in the 1970's the Japan-U.S. difference was reversed, and in the 1980's Japan kept widening its lead. Comparing the period of time required

for a new product in the Japanese and U.S. automobile industries to come to market from the planning stage, the U.S. lag in systems efficiency is evident. In the United States the process takes 62 months, over a year more than in Japan, where it takes only 43 months.

As to quality, the likelihood of problems with brand-new automobiles is 60 percent higher in American than in Japanese automobiles. The high percentage of defects in U.S. products is also noticeable in the high-technology semiconductor industry.

The report cited U.S. business management attitudes as the factor behind the reduced competitive power. In the United States, quarterly performance reports are required for all enterprises, and corporate rankings and the behavior of stockholders are very much affected by those reports. Managers in U.S. enterprises, therefore, tend to give priority to pursuing short-term profits, which makes it difficult for them to map out such long-term management strategies as R&D and quality improvement plans.

* Problems in Establishing Import Goals Viewed

902A0058A Tokyo NIHON KEIZAI SHIMBUN in Japanese 22 Dec 89 p 27—FOR OFFICIAL USE ONLY

[By former Deputy Vice Minister for Foreign Affairs Michihiko Kunihiro]

[Text] (1) Dr. Dornbush contends that the Japanese/U.S. Structural Impediments Initiative [SII] discussions are meaningless. Further, he proposes that America should establish import goals for American products as its trade policy toward Japan. If Japan cannot meet these goals, he says that America should establish sanctions.

(2) Not only does this assertion contradict the economical analysis being advanced by Dr Dornbush himself, but it also overlooks the responsibility of the exporting nation. What is more, the fact that he is justifying controlled trade for one particular country is also a problem.

(3) Of course, it is not acceptable for Japan to do nothing. It is necessary for Japan to make greater efforts to relax restrictions and make structural adjustments. It is also necessary for Japan to cooperate with other major trading nations in promoting the strengthening of the free trade system. At the same time, if the United States makes efforts to establish export goals, Japan should not be reluctant to cooperate.

Only Japan Persistently Requested To Control Trade

With the objective of correcting the trade imbalance between Japan and the United States, structural discussions are being carried out at the present time in an effort to remove the trade barriers of both countries. In response to this, Dr Dornbush of MIT (Massachusetts Institute of Technology) stated in this column (28 and 29 November) that the structural discussions were fruitless and advocated controlled trade.

Although it is an extremely interesting article, there are numerous points in his prescription with which I cannot agree. In particular, (1) the trade policy toward Japan should be developed by the reacting-to-results philosophy; (2) establish the import goals for American goods for the next 10 years along with built in sanctions—these proposals can in no way be said to be a sound argument.

Basically, these proposals seem to have been made under the premise that the decision on whether the import of American products into Japan increases or not is a step to be made by the Japanese side (regardless of whether it should be governmental or private). If this were not the case, the question of unilateral imposition of trade sanctions on Japan would probably not arise even if the Japanese import of American goods did not increase according to established goals. Likewise, it appears as if there are no factors for which the American side can be called to account.

On the other hand, Dr. Dornbush says, "During the 1980's, the U.S. balance of payments deficit increased by $100 billion. This was due to an unfavorable domestic macroeconomy, not to trade obstructions." At times when the domestic demand in America is very great and manufacturers do not have a desire to export, or at times when there is no supply even though the will to export is present—do you mean to say that as a result of such times Japan will still face "sanctions"?

In actuality, just when America began to export iron and steel to the Japanese market, Mr. Roderick, chairman of the board of USX, said, "We can export to Japan. However, the U.S. market is more profitable. We first want to answer the demands of our domestic customers. U.S. demands are great. We do not have enough products to take on exports." (NIHON KEIZAI SHIMBUN, 8 October 1987).

This is reality. Therefore, it seems to me that American exports do not increase for this reason. What is more, they try to push responsibility for failure to increase exports on exporting countries. If it comes to the point where importing countries are sanctioned, that would be nothing more than unfairness itself.

Second, Dr. Dornbush specified regarding American goods a proposed establishment of a goal of Japanese import of those goods be increased 15 percent each year. On the other hand, Dr. Dornbush states, "Trade policy should not be used to achieve trade balance, particularly trade balance between two countries." This is the sound argument of global multinationalism based on discerning economic knowledge. To have the two-country thinking make an appearance in this prescription is beyond understanding.

More than in this case-by-case theory, however, the essence of the problem lies in the fact that it is accepted as a matter of course that controlled trade will be

discriminatorily demanded of Japan. If the United States should by any chance apply controlled trade to Japan, there is a possibility that the European countries might follow suit, and even that the developing countries might adopt a similar policy.

Although this might not be seen immediately as a trade war, it is inevitable that a tremendous chaos in world trade will arise. As a result, there is no mistaking the assumption that Japan would suffer great damage. Judging from the extent of Japan's present day imports, there would also be more than a few countries which would sustain severe blows. In its self-defense, Japan can do nothing but consider exercising its rights under the General Agreement on Trade and Tariffs (GATT).

In addition, the problem of the hinderance of parts supply between industries will arise. It is clear that the actions taken against Japan will not be limited only to sanctions against Japan. The GATT principle of non-discrimination, no favored-nation-treatment would apply here.

Interpretation of Japan/U.S. Negotiations Contrary to Facts

In the professor's interpretation of the Japan/U.S. negotiations, there is a mistake in his understanding of the facts. He points out that "in the debate surrounding regulation, Japan has completely dominated for the past 10 years." This, however, is an evaluation of the regulation of the macropolicy. When it comes to actual trade, he criticizes by saying that "Japan has used its hand with great finesse. It has easily avoided serious discussion concerning access of its market place."

In actuality, however, Japan has taken quite a number of reform actions to give access to its markets. This includes access for agricultural products. Further, he contends that the Market Oriented Sector Selective agreement (MOSS) gave birth to no quantitative results. However, import of electric communications equipment, electronics products, and lumber products shows an outstanding increase.

Although import of medicines and medical equipment from the United States has not reached expected levels, the import of those commodities from Europe has increased. To claim that the United States was unable to beat the European countries in the competition was the fault of the MOSS agreement is unreasonable.

Far-reaching reforms were also made in the area of basic automobile certification. As a result of this, imports from West Germany showed a remarkable improvement (70 percent over the past two years). At present, the automotive trade in terms of money is about equal between Japan and West Germany.

The percentage of total imports in the industrial products sector in 1982 was about 25 percent. Today that figure has risen to close to 50 percent. In particular, import of products from neighboring Asian countries has increased 2.3 times during the past two years. If, in fact, the Japanese market is really exclusive, these types of increases should not have occurred. Incidentally, the U.S. share of all product imports to Japan in 1985 was 25.5 percent. Today that figure has slipped slightly to 23.6 percent.

When comparing the period from the beginning of 1989 up to September with the same period of the previous year, it can be seen that, the same as in the previous year, U.S. exports to Japan increased 18.3 percent and this is greater than the 15.3 percent increase enjoyed by the European Community (EC). I can hear the objection being made right now that even though the increase is great, the base is small. Yes, the value of U.S. exports to the EC is double that to Japan. But, the gross national product and the population of the EC is also double that of Japan.

Significance of Japan/U.S. SII Discussions Great

The above are my objections to Dr. Dornbush's proposal. This does not mean, however, that Japan can rest on its laurels.

It is definite that Japan must make greater efforts to relax restrictions and make structural adjustments so that its economy will be able to accept even greater amounts of imports. Furthermore, it is necessary to continue into the future the macropolicy of expanding internal demand. That is not just our countermeasure toward the United States, but it is something which is important for the Japanese economy itself. That, however, is not all. It is an obligation we must undertake as a member of the free trade system.

This year, 1990, is important because it is the year during which the Uruguay Round (multilateral trade negotiations) is to be completed. As an important trading country of the world, Japan must contribute positively to the negotiations. This is what is to be expected from the country which has benefited most greatly from the multilateral free trade system. For that reason also, Japan is being pressed by the necessity to make wide-ranging restriction relaxations and a structural reformation.

However, this can be made a reality through the joint efforts of major trading nations. It is not something which can be done by the United States, alone, forcing controlled trade onto Japan and then threatening to enact sanctions if Japan does not follow what has been forced onto it. The present structural discussions being carried out between Japan and the United States have an important meaning when seen from the viewpoint of both countries working together on positive countermeasures.

A countermeasure in the structural area will have short-term meaning. Hoping for the creation of quantitative results is essentially a mistake. If viewed from a medium-range viewpoint, which is the substantial viewpoint when thinking more or less of the basic relationship

between Japan and the United States, there is no mistaking that at the least these discussions have meaning.

When these sundry points are considered, it becomes clear that Dr. Dornbush's prescription can be supported from neither the standpoint of principle, nor from the standpoint of effectiveness.

Conversely, if the U.S. Government and industry were to cooperate in exerting the effort to achieve an increase in American exports to Japan by 15 percent each year over the course of the next 10 years, a goal which the United States itself has established, that would be just fine. The Japanese side would in no way stint in cooperating as much as possible.

The prescription for correcting the trade imbalance between Japan and the United States demands above all else that it be recognized that nothing fruitful will result without both sides grappling with the problem.

Changing Values in 4 MOSS Import Fields

(Unit: $1 million. The upper row of each of the two-row sets represents the import figure from the whole world. The lower row shows that from the U.S. The figure in the parentheses shows the increase over the previous year.)

	1985	1986	1987	1988
Electric Communications Equipment	149	211 (41.6)	304 (44.1)	454 (49.3)
	125	164 (31.2)	212 (29.3)	307 (44.8)
Medicine	1,292	1,724 (33.4)	2,110 (22.4)	2,658 (26.0)
	536	570 (6.3)	583 (2.3)	677 16.1)
Electronics	1,490	1,625 (9.1)	2,067 (27.2)	3,034 (46.8)
	1,159	1,218 (5.1)	1,561 (28.2)	2,328 (49.1)
Forest Products	4,908	5,574 (13.6)	8,475 (52.0)	10,006 (18.1)
	1,549	1,805 (16.5)	2,554 (41.5)	3,225 (26.3)

(Note) The above figures were taken from customs classifications. These products do not always match completely those products which are subjects of MOSS.

* Nissan President Discusses Automobile Exports

902A0045A Tokyo NIHON KEIZAI SHIMBUN in Japanese 1 Dec 89 p 13—FOR OFFICIAL USE ONLY

[Interview with Nissan Motor Co. President Yutaka Kume; interviewer not identified, date and place not given]

[Text] The major automobile manufacturers, one after another, are grappling with international cooperation programs. The export of four-wheel vehicles continues to decline from its 1985 peak as full-scale local production operations have begun overseas. However, because no conspicuous improvement has appeared in the Japanese-U.S. trade imbalance, the automobile manufacturers are being forced to make clear policy statements regarding export restraints and import expansion. We asked Nissan Motor Co. President Yutaka Kume, whose company has worked out a bold export reduction policy, about the likelihood of its realization.

[NIHON KEIZAI SHIMBUN] The programs of Toyota Motor Co. and Mazda focus on import expansion. Nissan, on the other hand, is making its goal export reduction by cutting in half its 1985 peak year export volume of 1.41 million vehicles by the end of the nineties.

[Yutaka Kume] The expansion of imports alone will not serve by a long shot to correct the trade imbalance between Japan and the United States. I am not taking sides in the argument that the automobile industry was the instigator of the imbalance, but in light of the deepening economic relationship between Japan and the United States, we would do better to understand their pain and reduce exports rather than criticize the United States.

[NIHON KEIZAI SHIMBUN] You would not increase exports even if the domestic economic picture worsens?

[Yutaka Kume] It is because of that that we need to expand the share of domestic sales. We are aiming for our domestic sales share to be 30 percent. In 1992, we would like to have 1.5 million in domestic sales (1.17 million in FY 1988), and 1 million each in exports and local overseas production (1.08 million and 570,000 respectively in FY 1988). If we achieve that, we will not need to curtail domestic production, and we will be able to deal with changes in the economic climate.

[NIHON KEIZAI SHIMBUN] You have recently built a second plant at your Kyushu facility (in Fukuoka Prefecture). The United States has been uneasy about large-scale Japanese capital investments. Won't this irritate them?

[Yutaka Kume] Every automobile company, including Nissan, cut back its capital investments over the past three to four years to overcome the effects of the strong yen. As a consequence, some plants and equipment became obsolete. On the other hand, a reduction in working hours cannot be avoided in order to secure a young labor force in the future. Even if production increases somewhat because of capital investment, because of the basic costs of reducing the hours of labor. I do not think it can be a factor in driving exports.

[NIHON KEIZAI SHIMBUN] Well, do you think it will be all right to seek the abolishment of the voluntary restraint of automobile exports (VRA [Voluntary Restraint Agreement]) to the United States?

[Yutaka Kume] If the export controls of all the companies would get on track, then I could understand the emergence of the argument that VRA should be abolished because it violates the prinicple of free trade.

However, it is still needed because of political anxieties, and is fine as it stands today. Nissan believes that dealing with this with flexibility is best.

The United States Trade Representative (USTR) is evaluating our program. While this is the policy of our corporation, that does not mean that we can freely stop, now that we have publicized it everywhere. Japan, up to now, has only been insisting on free trade and did not make counterproposals (to obtain the understanding of the other party). An international cooperation program is such a counterproposal, I believe.

[NIHON KEIZAI SHIMBUN] There is the view that the expansion of local production overseas invites an increase of capital goods and parts exports and will not contribute to a reduction of the surplus to the extent thought.

[Yutaka Kume] To be sure, this will be the case to some extent at the outset of the construction period. This is because even if we want to procure our manufacturing equipment in the United States we will not be able to. However, we would like to procure our equipment and parts from the local area as much as possible, and we are preparing a system to promote localization from the development and design stages. The United States automobile industry is not only criticizing Japan's keiretsu [affiliate] system, but would like the finished vehicle manufacturers and the parts companies to begin joint operations from the development stage.

[NIHON KEIZAI SHIMBUN] How is import expansion proceeding?

[Yutaka Kume] At present, the only reverse import vehicle is our U.S.-manufactured Datsun cab. In the future, I would like to increase our reverse import vehicles from Mexico and Australia as well. When it comes to dealing with the vehicles of foreign manufacturers, competition will emerge, in some respects, for full-line manufacturers like us. However, if we are asked to deal with this, we intend to cooperate to the extent of allowing dealer sales without a sales norm. In any case, increasing reverse imports has the two-sided effect of import expansion and the reduction of supply to overseas markets, and I think it has twice the effect of foreign car imports.

* Sony's Purchase of Columbia Examined

902A0070A Tokyo SHUKAN KORON in Japanese Jan 90 pp 92-23—FOR OFFICIAL USE ONLY

[By Rei Takeuchi]

[Text] **Why the Surprise?**

The purchase of Columbia Pictures Entertainment Inc. by Sony has invited strong opposition, "They have bought a piece of America's soul," (NEWSWEEK).

Some Japanese were perplexed at the opposition to Sony, which is spearheaded by Chairman Akio Morita who is an international expert and exceptionally well-versed about U.S. affairs, but they have reached the conclusion that they have been nicely taken in by a U.S. trick.

It was not a trick to lead to Japan bashing, but a U.S. business trick to have them purchase it for a large amount of money.

The schemer was the Coca Cola Company, which is a large stockholder in Columbia. The leading U.S. film producer Peter Guber contributed further to the deception.

The expression "trick" probably has the sense of some underhandedness both for the tricker and one being tricked, but it was by no means such a shady matter. It was proper for Coca Cola to negotiate for the best business deal, and Guber also protected his own interest, plugging his own capability by saying, "If you leave the management up to me, it will succeed."

Aside from the fact that the purchase of the top film company MGM was an everyday occurrence in M&A's in the U.S. economic world, the purchase of Columbia, which was number three and recently had a dismal business record, normally should not have been surprising to Americans. This coupled with saying that "he has bought a piece of America's soul" probably was a surprise to U.S. expert Morita also.

There have been numerous M&A's in the U.S. film world. No matter who buys them, they will be better off if the company business records improve and the employees get higher salaries.

Morita says, "There is not that much opposition in America. NEWSWEEK and the other mass media write with good intentions."

Is that true? I imagine that the both the top two at Sony had anticipated much opposition in the United States. At the same time, they wished there had been more time before the decision to buy was announced.

The negotiations between Coca Cola and Sony proceeded smoothly. Michael B. (Schulhoff) (vice president, Sony Corporation of America), who had just assumed the position as a Sony director in June of last year, was ordered to represent Sony in the negotiations by President Oga, who is contemplating world domination in AV (audio-visual).

First, let's simply trace the course of events.

- New York, 25 September 1989 in the morning: Rumor that Sony is purchasing Columbia makes rounds of Wall Street.
- Same day, afternoon: Coca Cola announces it is "negotiating as a third party in the Columbia sale." No comment on anything else. Sony, the same.
- 26 September, 9 AM: Chairman Morita, who is visiting the United States, appears on television but no comment to questions about Columbia purchase.
- Japan, 27 September, 6 PM: (New York time 5 AM the same day): President Oga confirms purchase for

first time in a press interview four hours earlier than scheduled saying, "It has been agreed between the top officials."

- New York, same day, 10:30 AM: Sony America announces purchase at $27 per share. Columbia also announces "agreement on purchase" at 11:30 AM.

Effective Final Notice

It was thought that talks were progressing smoothly, but in fact, in the midst of the negotiations, there was a trick in what was thought to be a final notice from Coca Cola.

"It appears we have found another buyer. If you want to buy, you must decide within a week."

Chairman Morita and Chairman R.C. Goizueta have had a relationship of long standing. Sony had not imagined that they would hasten the sale even if there were negotiations with someone other than Sony.

After receiving the final notice from Coca Cola, Sony held a management conference for three consecutive days. Chairman Morita, who was in the United States, also participated by teleconferencing.

President Oga, who eagerly desired the combination of the prestigious film company Columbia which has the Goddess of Liberty as its symbol and CBS records which he had been able to successfully purchase, and Chairman Morita, who stressed that "hard and soft are inseparable," believed that if they were going to buy, it would only be Columbia.

When Sony began to be hurried into quickly making a decision on the purchase due to Coca Cola's trick, suddenly Guber came to forward, "Why not leave the management up to me?" President Oga, who is more familiar with this industry than Morita, already had collected data concerning Guber.

He believed that "If Guber agrees to be manager, the purchase of Columbia will succeed."

The Coca Cola and Guber slyly attemped to hasten Sony's decision. Like the consumption tax problem of the Liberal Democratic Party, there was not time to discuss it thoroughly within the company and because they proceeded with a poor understanding of it, it appeared to invite the opposition of the United States.

If it were not for these two actions, reconciliation of the concept within the company and laying the groundwork within the United States probably would have proceeded in a Morita manner.

In any case, the purchase of the U.S. film company appears to be the future center of Sony's media business. In the past, it was the media king, Murdoch, from Australia who purchased Fox, with 20th Century Fox as a subsidiary, in 1987, and who expanded the television broadcasting business, even participating in television broadcasting in Europe using satellites.

In other words, a film company is sort of a storehouse for creating television programs, managing theaters, operating cable television, and additionally supplying video tapes of movie hits. By purchasing Columbia, it goes without saying that the aim was to kill two birds with one stone.

A Transitory Phenomenon

It is said that it was President Oga who was the most eager for this purchase and formerly had fought for the purchase of CBS records. It probably was because President Oga had the ambition as president to get his hands on Columbia's film business, which has the world as its stage, and have Sony rise to become a worldwide AV company. Morita, of course, was not opposed. Nevertheless, there was some indecision within the company.

The problems were the purchase price and reaction involving trade friction.

First, there was the price. The investment of Y600 billion in films with no acquaintance of the locale was very risky. Viewed from investment efficiency, there is nothing more controversial for future prospects.

Morita, who is familiar with U.S. matters and has advocated the Japanese standpoint in everything, was not a stranger to the circumstances. From the standpoint of a critical financier, this was a time he must act and speak from the standpoint of a manager. It can be said that he was prepared to be cautious to that extent.

Naturally, it was necessary to take time for repeated discussion. It probably is necessary even for Americans who are friends to "lay the groundwork." At the stage of the purchase announcement, Chairman Morita was in the United States to give his approval.

Concerning U.S. opposition, Morita hinted that it was a surrogate for trade friction, stating that "it is because problems with the trade imbalance between Japan and the United States are far from being solved that it (the Sony purchase) is being treated very emotionally and politically." It is a well-considered surrogate.

Will this vindication or rather refutation soon be understood in the United States? Clearly speaking, it has no punch and lacks force.

In "The Japan That Can Say 'No,'" which he coauthored with Shintaro Ishihara, it is Morita who advocates trying to add to the number of Americans who will support Japan. However, the 27 September issue of THE WASHINGTON POST cast doubt on Sony's actions in a statement by a reporter, although mild, that "Doubt is seething within the United States." In the course of time, that doubt has changed to opposition.

How will the leaders, Morita and Oga, act against this unexpected opposition, criticism, and reproach which the United States is exhibiting toward Sony?

They have signed a contract to pay Guber, who has great expectations as a manager, and his partner Jon Peters (joint presidents of The Guber-Peters Entertainment Co.[GPEC]) each an annual income of $2.7 million (about Y378 million). By depending upon them completely, they are trying to eliminate friction between the two countries.

It appears that the U.S. opposition is a transitory phenomenon.

* 'Buying of America' Phenomena Examined

902A0051A Tokyo NIHON KEIZAISHIMBUN in Japanese 11 Dec 89 p 3—FOR OFFICIAL USE ONLY

[Interview with Mitsui Real Estate chairman Hajime Tsuboi by NIHON KEIZAI SHIMBUN's industry department deputy chief, Shinichi Kamata; date and place not given]

[Text] The investment of Japanese funds in overseas real estate remains active. It is said once the British Empire once owned 20 percent of American real estate; but the assets which Japan owns in America have now outstripped those of the United Kingdom. Mitsubishi Real Estate's acquisition of stock in the Rockefeller real estate corporation drew criticism from the American media; and in Hawaii and Australia investment frictions smolder, such as opposition being raised among the local people. How long will it continue, this "buying of America" by Japan, whose financial power carries such weight? We asked Hajime Tsuboi, chairman of Mitsui Real Estate.

Surpassed England in Few Years

[Kamata] It is said that the balance of Japanese real estate investment in the United States has grown from $42 billion at the end of 1988 to some $53 billion currently, and has already surpassed England's, has it not?

[Tsuboi] I do not have the precise statistics; but, of late, Japan has been accumulating U.S. real estate investments at a rate of $15 to $16 billion annually. It will probably increase at the same pace hereafter. In just a few years we have surpassed British investments in the United States with their history of more than a century. By 1992, our total investment in the United States will reach $100 billion. That is really something.

[Kamata] What is your basis for anticipating that the high rate of investment in the United States will continue in the future, too?

[Tsuboi] When the exchange rate is uniform, investment in the United States is very profitable. It is politically and economically stable; and, above all, returns on investment are high. We can expect around 7-10 percent. In such major cities as New York, many top-of-the-line properties like buildings, hotels and shopping centers are on the market. Not only real estate companies, but others such as insurance companies are actively buying. Cases of real estate being made into small-lot securities and investments going into them also have increased.

By contrast, in Japan land is expensive and profits are low. Moreover, the buildings and other properties coming onto the market can be counted on your fingers. Our company bought the Exxon building in New York from Rockefeller at the end of 1986. At the time, I marveled at that. Why? Because it was for sale. They were unconcerned to be putting their head-office building up for sale. They sell off-the-book property and take a profit. For American managers it is a natural action.

Same as Buying U.S. Government Bonds

[Kamata] Is the context for the rapid increase in investment in the United States the high price of land in Japan, the high yen and the different business practices of Japan?

[Tsuboi] American real estate is high risk and high return. Building rents instantly drop if an infuential tenant moves out. But, the American real estate business is made up of many medium and small firms; and with dollar interest rates being high, they cannot buy. It is the same as Japanese institutional investors buying 30-40 percent of United States bonds. In a yen market they could buy. However, unlike the Americans, we have an attachment to our head-office buildings. Companies like Mitsui (in Tokyo's Nihonbashi) have been here for 300 years, so that selling our company's head offices means folding up.

[Kamata] With such deluge-like investment in real estate are the Americans feeling emotional?

[Tsuboi] Investing in commercial property such as head-office buildings is a purely economic activity. However, from the standpoint of the American self-confident and proud national character, Mitsubishi's buy-up of a Rockefeller subsidiary firm becomes like "having sold New York's prestige to Japan." For, Americans hate defeatism. However, in such areas as finance and industry the interdependent relationship of the Japanese and American economies has now become structural.

The problem is residential property. In Hawaii or on Australia's gold coast, the Japanese are rushing to buy at prices far exceeding the market value, and so are inviting local reactions. If they buy one house at a high price, the values of neighboring houses rise; and high taxes must be paid, thanks to the Japanese. That has even given rise to the disturbing term "Japanese price." A moderate stance that will not cause this over-heating and becoming good corporate citizens of those countries and regions are most important.

Sometimes Even Making Judgments Beyond the Corporation

[Kamata] Through the Japan-United States structural talks, the United States has pointed out that Japan's high land prices constitute a barrier to access to the Japanese market, has it not?

[Tsuboi] The Japanese sense of dependence on land has no parallel in the United States. We do not let go of either land or buildings. Differences in social structure and traditions stand between the two countries, so that

even our changing of regulations, etc., would not lead directly to America coming into Japan. Still, there is an urgent need to increase the supply of land in the capital area through such measures as assessing agricultural land within urbanized zones on the same basis as residential land.

With detente between the United States and the Soviet Union, influence in the world is shifting from military to economic power. With that alone, the investment of Japanese funds which are now so huge must be circumspect. With real estate investments, too, there may be cases in which we must not act upon judgments merely at the corporate level.

U.S. End to Shipbuilding Subsidies To Be Urged

OW0602131490 Tokyo ASAHI EVENING NEWS in English 5 Feb 90 p 4—FOR OFFICIAL USE ONLY

[Text] Japan will call on the United States to scrap subsidies for its shipbuilding industry in bilateral trade talks to be held in conjunction with a meeting under the Organization for Economic Cooperation and Development (OECD) in Paris on Feb. 13 and 14, Transport Ministry officials said Friday.

The shipbuilding subsidy issue was raised between the United States and its four trading partners when the Shipbuilders Council of America last June filed a complaint with the office of U.S. Trade Representative Carla Hills that West Germany, Norway, South Korea, and Japan are engaged in unfair trade practices.

The U.S. industry group asked Hills to consider retaliatory trade measures against the four countries under Section 301 of the 1988 U.S. Trade Act, if they refused to reduce their subsidies.

Japan will counter the U.S. claim by pointing out in the meeting that the United States has lots of its own subsidies, the officials said.

Soviet Union

Editorial on Northern Territories Issue

OW1102000290 Tokyo THE DAILY YOMIURI in English 8 Feb 90 p 6—FOR OFFICIAL USE ONLY

[7 February editorial: "Northern Territories Day"]

[Text] The government 10 years ago designated Feb. 7 "Northern Territories Day," but no real progress has been made in negotiations with the Soviet Union for the return to Japan of these unlawfully occupied islands.

The government chose this date because it commemorates the day in 1855 when the two countries signed the Japan-Russo Friendship and Commerce Treaty. The treaty established diplomatic relations and confirmed that Etorofu and territory south of this island belonged to Japan. The treaty made evident that Kunashiri, Etorofu, Habomai and Shikotan islands are an integral part of Japan, both legally and historically.

Since 1965, a total of 50 million people have signed a petition demanding the restoration of these islands to Japan.

In the past decade, there have been changes in the Soviet position toward the islands issue. When the islands day was designated, the Soviet Union said this was an attempt to bring up a territorial problem that did not exist.

Gorbachev's Statement

When former Liberal Democratic Party Secretary General Shintaro Abe visited Moscow last month, Soviet leader Mikhail Gorbachev told him that Japan had "an inherent right" to insist upon the return of the islands, and he acknoweldged the existence of the issue.

The domestic situation in the Soviet Union is undergoing rapid and radical change. The three Baltic republics are loudly demanding independence and the Soviet Union is realistically reviewing its history. In fact, a Lithuanian publication urged that Moscow return the islands.

However, it would be too optimistic and premature to assume that these developments will help Japan regain its lost territories. Gorbachev's statement only acknowleged that the problem exists and that this was blocking improvement of bilateral relations. This cannot be interpreted as a positive step toward resolving the issue.

Also, the comments of the Soviet negotiators in the working-level talks indicate the Soveit Union wants to shelve the issue with the hope it will lose significance among the Japanese people.

Standing Firm

With ethnic movements gaining strength in the Soviet Union, Soviet leaders may feel a clumsy handling of the territorial issue might stimulate these movements. Therefore, the Soviet Union's internal confusion may in the short run work against a solution.

With the Soviet Communist Party's Central Committee now discussing abandoning one-party rule, democratization has entered a significant stage, and U.S.-Soviet detente is progressing well. These are favorable developments for Japan and Japan should support them.

However, these developments still do not permit Japan to separate economic and political matters in dealing with the Soviet Union as long as the territorial issue remains unresolved.

Truly friendly relations between the two countries cannot exist as long as the Soviet Union continues to illegally occupy Japan's four northern islands. The Soviet Union should be aware of this, and Japan must

continue to cooly but firmly press its demand in the negotiations with the Soviet Union.

Position on Soviet Security Talks Eased

OW1702020790 Tokyo THE DAILY YOMIURI in English 15 Feb 90 p 1—FOR OFFICIAL USE ONLY

[Text] The government "will not eliminate dialogue" on a Soviet proposal for talks between Japan and the Soviet Union on security-related issues despite lack of agreement on the northern territories issue, a high-ranking Foreign Ministry official said Tuesday.

This is the first time that a high-ranking government official has responded positively to the Soviet proposal.

The official, who asked to remain anonymous, mentioned the Soviet proposal in connection with an agreement reached recently by foreign ministers from the United States and Soviet Union to begin talks on security in the Pacific and northeast Asian regions at an early date.

The official welcomed the agreement and said Japan will closely observe further developments.

As an example of ways to enhance mutual security between Japan and the Soviet Union, the official suggested the withdrawal of Soviet forces from the northern territories off Hokkaido.

The official also stated, however, that the government would not agree to a Soviet proposal for a reduction in naval forces.

Previously, Japan had been cautious about the Soviet proposals for talks on security issues on the grounds that it would not only detract from negotiations on a peace traty between the two countries, but also might make Japan susceptible to Soviet manipulation.

Japan's position up until now has been to place top priority on signing a peace treaty, contingent upon resolution of the territorial issue.

Peace-Keeping Role

In a move to increase Japanese cooperation in United Nations' peace-keeping operations, the Foreign Ministry will dispatch a team to study U.N. peace-keeping activities and hold a meeting in New York of embassy officials stationed overseas, it was announced Wednesday.

The team will leave later this month, while the meeting will take place in mid-March. The ministry eventually hopes to expand the scope of Japanese cooperation in U.N. peace-keeping activities, which is currently limited to financial support and election observers.

Kaifu: Moscow's New Diplomacy Will Affect Asia

OW0502021890 Tokyo YOMIURI SHIMBUN in Japanese
4 Feb 90 Morning Edition p 3—FOR OFFICIAL USE ONLY

[Text] Prime Minister Kaifu, in a stumping speech in Sapporo on the afternoon of 3 February, indicated for the first time that he thinks the Soviets might come up with a new approach toward the Asian and Pacific situation. He said, "I believe that the effects of New Thinking diplomacy will soon reach Asia in the near future, thanks to perestroyka (restructuring) in the Soviet Union."

He went on to say, "I hope to continue making active, wide-ranging and practicable endeavors to resolve the northern territories issue and thus establish stable relations with the Soviet Union." Thus, he vowed his efforts for improving relations between Japan and the Soviet Union.

Editorial on 'End' of CPSU Monopoly on Power

OW0902025990 Tokyo MAINICHI DAILY NEWS in English 7 Feb 90 p 2—FOR OFFICIAL USE ONLY

[Editorial: "End of Communist Dictatorship"]

[Text] The Soviet Union is finally ending its communist dictatorship, bringing a fundamental change to its more than 70-year-old political rule and signifying the start of a more open society under democratic socialism.

We welcome this historic reform as a monumental decision that will dispel the gloom shrouding the country and accelerate the development of a modern society.

President Mikhail Gorbachev proposed the reform Monday in his report to a plenary meeting of the Central Committee of the Communist Party, saying that a pluralistic system already exists in the Soviet Union, and that the Communist Party should acknowledge it and renounce all the political and legal privileges it has monopolized. Article Six of the constitution of the Soviet Union guarantees the communists the leading role, and whether to abolish this has been hotly debated as a crucial issue that will determine the fate of Gorbachev's perestroyka.

As such, it was only logical that Gorbachev also proposed a stronger executive branch under a presidential system to facilitate the implementation of reforms.

In the past Gorbachev had maintained that communist one-party rule was necessary for governing the vast multi-ethnic nation, while in principle accepting the existence of diverse views that could lead to a pluralistic Soviet society. This fact not only cast doubt on Gorbachev's position as a progressive reformist, but also tended to assimilate him with conservative communists.

The issue became more critical with the series of reforms in Eastern Europe last year, where the people's pent-up

frustraion with decades of communist dictatorship erupted, either driving communist parties out of existence or forcing them to seek a coalition with other political groups. With such changes the communists are certain to lose in the free elections scheduled this spring in Eastern Europe.

Even East German Prime Minister Hans Modrow expects that half a million Communist Party members will flee to West Germany in the event the party loses in the next election, which he says is possible, given the people's deep distrust of rule by the Communist Party and hatred of its members.

The Communist Party of the Soviet Union faces a similar fate once its dictatorship is abolished. Political repression and human rights violations by Stalin, Brezhnev and other communist leaders have left large scars on the people, and the party only survived by putting the lid on the people's anger and frustration. Thus a large gap in thinking exists in Soviet society between Communist Party members and ordinary citizens.

In addition to the events in Eastern Europe, the recent apparent loss of the authority of the Communist Party in the Soviet Union seems to have forced Gorbachev to change his view on its dictatorship.

He went to Lithuania in January in an attempt to pacify the local people, who were demanding secession from the Soviet Union, and the local Communist Party, which was seeking independence from Moscow, but his trip was a dismal failure.

Even if Gorbachev's proposal for pluralism is approved by the Central Committee and formally adopted by the forthcoming CPSU Congress, it will take time for the proposal to bring practical change to Soviet society. It will be no simple task, for example, to make the vast, entrenched Communist Party bureaucracy conform to the new situation.

With the Communist Party of the Soviet Union moving toward social democracy, the socialist states in Europe are falling in step. This leaves China still clinging to the old system. How the changes in communism in Europe will influence Beijing is worth watching.

USSR 'Considering Improving' Ties With Japan

OW0702183790 Tokyo JIJI in English 1338 GMT 7 Feb 90—FOR OFFICIAL USE ONLY

[Text] Toyama, Feb. 7 (JIJI PRESS)—Shintaro Abe, a senior member of the ruling Liberal Democratic Party (LDP), said Wednesday that Soviet President Mikhail Gorbachev is positively considering improving his country's relations with Japan. Abe, former LDP secretary general, made the remark in a speech in this central Japan city in reference to the recent Soviet decision to allow Japanese to visit the graves of ancestors and relatives on the Soviet-held island of Etorofu, off Hokkaido.

The Kremlin has now agreed to start negotiating on a range of bilateral issues with Japan, including the territorial dispute over the four northern islands, including Etorofu, he said. All these issues should be solved while Gorbachev is in power, Abe said.

Soviet Ambassador to Japan Nikolay Soloviev told Abe in a telephone conversation Tuesday morning that the Soviet leadership has accepted a request from Japan to allow visits by Japanese to the graves of ancestors and relatives on Etorofu Island. The Soviet Union has allowed similar visits to graves on three other islands—Habomai, Shikotan and Kunashiri. The islands were all seized by the Soviets in the closing days of World War II.

Earlier in the day, Deputy Chief Cabinet Secretary Nobuo Ishihara told a news conference that the Soviet decision on the Etorofu visits is welcome from a humanitarian standpoint and demonstrated Moscow's wish to improve relations with Japan.

Soviet Troop Withdrawal From Cam Ranh Viewed

OW2501004090 Tokyo MAINICHI SHIMBUN in Japanese
22 Jan 90 Morning Edition p 6—FOR OFFICIAL USE ONLY

[Editorial: "Move for Arms Reduction in Asia and the Pacific"]

[Text] The huge area "from the Urals to the Pacific" has been left out of the wave of East-West detente, but finally we are beginning to see a concrete sign of a move toward it.

If the unilateral withdrawal of Soviet Air Force strength from the Cam Ranh base means a Soviet change of strategy on the Far East, this action's impact on this region will be very great. This also will have an important impact on Japan's security policy. We would like to carefully watch further developments in this regard.

The Soviet Foreign Ministry has recently announced that MiG-23 fighter planes and TU-16 intermediate-range bombers in Cam Ranh Bay had been withdrawn by the end of last year and that only a handful of aircraft now remain on the base.

Foreign Minister Shevardnadze is reported to have said that "the days are close when there will be no more Soviet troop presence outside Soviet borders in Asia." Mongolia is the only country in Asia, besides Vietnam, where the Soviet Union has its troops stationed, and even there, a large-scale withdrawal is in progress.

On Cam Ranh Bay facing the South China Sea there are naval and air force bases constructed at huge cost by the United States during the Vietnam war. The Soviet Union began to use these bases as supply bases for its Far

East Fleet in 1979, and until only recently it had a fleet force there of 30 vessels including submarines, about 40 aircraft including MiG-23s and TU-16s, and about 7,000 troops.

For the Soviet Union, these were the largest military bases outside of the country, and were considered to be important strongpoints from which it could deploy its naval and air force strength against the entire Asian area.

However, according to the announcement of Foreign Minister Shevardnadze, the Soviet Union is willing to pull out completely from these bases.

This is the first step toward arms reduction in the Asian and Pacific region, and we welcome it.

General Secretary Gorbachev of the Soviet Union, in a speech at Krasnoyarsk the year before last, made a seven-item proposal in relation to security in Asia.

In the proposal, in which the freeze of nuclear forces and naval strength was its main theme, there was a clause in which the Soviet Union said it would give up the bases on Cam Ranh Bay if the United States agreed to withdraw its bases on the Philippines. It is possible that the aim of the Soviet Union lies there.

Two bases on the Philippines—Clark Air Force Base and Subic Naval Base—are the largest bases the United States has overseas, and their roles in the world strategy of the United States as well as Asia are important.

With treaties governing the bases scheduled to expire in 1991, there are now harsh confrontations within the Philippines over whether to renew them or not. The U.S. and Philippine Governments will begin preliminary talks on the revision of the treaties soon, but the Soviet move will have no small impact on the future of the two bases.

Vietnam, which has long been relying on the Soviet Union for economic and military aid, has to look for an alternative. We hope that this will contribute to an early resolution of the Cambodian question, though indirectly. In the "post-Cambodia" era, nations of the Association of Southeast Asian Nations (ASEAN) and Vietnam should be able to coexist in peace.

Foreign Minister Shevardnadze is now calling on the United States to "revise its policy" in response to the Soviet withdrawal of troops from Asian countries. A possibility is emerging that dialogue on a reduction of conventional forces will begin in one way or the other.

The Japanese Government is saying that the military capabilties of the Soviet Union in the Asian and Pacific region are in fact being increased. However, the pace of change in the situation these days is swift. We would like the government to tackle the question of arms reduction in this region, based on flexible perspectives.

KYODO Interviews Envoy on Ties, Soviet Reforms

OW1102151090 Tokyo SANKEI SHIMBUN in Japanese 6 Feb 90 Morning Edition p 2—FOR OFFICIAL USE ONLY

[Report on interview with Soviet Ambassador to Japan Solovyev by KYODO NEWS AGENCY on 5 February at the Soviet Embassy in Minato-ku, Tokyo]

[Text] Soviet Ambassador to Japan Solovyev gave an interview to KYODO NEWS AGENCY on 5 February at the Soviet Embassy in Minato-ku, Tokyo, in which he expounded on Japan-Soviet relations, political prospects for the Soviet Union, which is now facing a historical turning point, and other issues.

In connection with the historical draft program for party reform program to be presented to the enlarged plenum of the CPSU Central Committee opening on 5 February, he said that "the party which initiated perestroyka (restructuring) is now the most backward. Reform is inevitable." He indicated that reform of the Communist Party will be unavoidable.

He highly appraised the fact that the atmosphere in Japan-Soviet relations has improved through political dialogues and the policy of balanced expansion. He repeatedly stressed that the northern territories issue will be resolved in the overall process of improvement of relations. Furthermore, he disclosed that disarmament in the Asia and Pacific region will be a major issue in the Japan-Soviet foreign ministerial talks scheduled for this coming March.

On recent Japan-Soviet relations, Ambassador Solovyev welcomed the fact that "political dialogues have become active and the framework of consultations has broadened. I highly commend Japan's efforts." On the eight-point proposal for expanding economic exchanges presented by former Liberal Democratic Party Secretary General Abe during his recent Soviet visit, he said that "we are studying them fully. It seems that the government offices and organizations (which will be in charge of the matter) have been selected." In particular, he expressed great enthusiasm for the early implementation of the plan to send 1,000 Soviet youth to Japan and to popularize Japanese language education.

The ambassador also said that "even if the Japanese side does not say territorial issue, if you say 'the difficult question,' we know very well what you mean." Although he recognized that the territorial issue is an obstacle in improving relations, he also stated that "some people also think that it (the territorial issue) cannot be resolved unless there is development in Japan-Soviet relations." He thus indicated his belief that it will be more conducive for balanced expansion of economic and personnel exchanges if Japan does not insist on the principle of "inseparability of politics and economics".

The ambassador also talked about domestic issues in the Soviet Union. He considered the enlarged CPSU Central Committee plenum starting on 5 February "an important plenum for the Soviet Union." He stressed that

"setting aside the question of scale and format, I am sure that there will be progress in party reform from now on. The party is now in a most difficult situation." He also indicated that the party congress scheduled for October may be held earlier.

On Foreign Minister Shevardnadze's visit to Japan in March, he said that "due to the U.S.-Soviet foreign ministerial talks and local elections, there might be some difficulties in arranging the schedule of the Japan visit, but I have not heard of any change in plans." He also indicated his view that the question of disarmament and relaxation of tension in the Asia and Pacific region should be taken up in the Japan-Soviet foreign ministerial talks.

Company To Deliver Goods Factories to USSR

OW2701190790 Tokyo JIJI in English 1425 GMT 27 Jan 90—FOR OFFICIAL USE ONLY

[Text] Tokyo, Jan. 27 (JIJI PRESS)—Nissho Iwai Corp. has won three major deals, totaling about 4.6 billion yen, to deliver consumer goods plants to the Soviet Union, it said Saturday. Under one of these deals, the Premier Trading House has already delivered a one-billion-yen plant for processing roller coaster rails to the Soviet Ministry of Machine Building [name as received] for construction, road building and municipal services, company officials said.

The remaining two deals relate to a 600-million-yen system to manufacture small motors for cassette tape recorders with radios, ordered by the Ministry of the Electrical Engineering Industry, and a 3-billion-yen lumberyard machine for Far Eastern forests, they said. These machines will be delivered by mid-1991, they said.

The three deals followed earlier Soviet orders placed with Nissho Iwai for plants to produce thermos bottles and refrigerator compressors. The trader said that the thermos plant would be built jointly by Ube Industries, Ltd. and Zorirushi Corp. and, the compressor plant by Sanyo Electric Co. and Toyo Engineering Corp.

With Soviet consumer goods and equipment production plans being strongly backed by the Kremlin leadership of President Mikhail Gorbachev, Nissho Iwai expects to win more Soviet orders for similar machinery, the officials said.

Europe

Columnist Examines Trade With East Europe

OW0102020090 Tokyo MAINICHI DAILY NEWS in English 30 Jan 90 p 6—FOR OFFICIAL USE ONLY

[Unattributed MAINICHI SHIMBUN article in "Perspectives" column: "Japanese Business in East Europe—MITI Putting a Damper on Enthusiasm"; italicized portion is source-supplied summary]

[Text] *East European countries attempting to transform their socialist economies into capitalist economies are expressing a growing interest in Japanese business and industrial practices.*

However, before they start to convert to market-based systems, these countries have a few fundamental problems to address: primarily their substandard infrastructures and difficulties with currency conversion.

According to statistics from the Ministry of International Trade and Industry [MITI], Japanese companies have established 10 joint ventures in three East European countries—Hungary, Bulgaria and Yugoslavia.

Most of these were set up before the waves of democracy swept across Eastern Europe last year. While a few are large-scale operations in the foods, chemicals and machinery manufacturing sectors, for the most part they are restricted to small-scale operations.

Now that democratic and political restrictions are being lifted in much of Eastern Europe, Japanese ambitions in this potentially valuable market are fast rising.

For the Japanese, Hungary and Poland are particular targets for future investment.

Socialist market policies are of course, anathema to Japan, and the nation's trading record provides clear evidence. In 1988, the value of Japanese exports to the seven Eastern European countries totaled 897 million U.S. dollars. Imports were worth 840 million dollars.

These figures represent no more than 0.3 percent of Japan's total trade balance.

Trading Companies

Prior to last year's dramatic democratic revolutions in Eastern Europe, Japanese trading companies had been making gradual progress in negotiations toward establishing trading links with East bloc countries.

Since then, increased exchanges of research and transactions between Japan, Hungary and Poland, have displayed the intensifying relationship between Japan and Eastern Europe.

In October 1989, Toyo Menka Kaisha, which is taking the lead in trade with East European countries, began the production of glass wool together with Nitto Boseki Co. in Hungary.

Toyo Menka is also building a production plant of lysine, a variety of amino acid used for feed, in Hungary jointly with Kyowa Hakko Kogyo. The plant is due for completion in mid-1990.

Negotiations are also in progress with the Hungarian invested 0.5 percent of its entire capital stock value (14 million yen) to the company.

Mitsubishi Corp.'s subsidiary, Thai Mitsubishi Trading Company and Thailand's largest cement company, Siam

Cement Group, signed an agreement last November aimed at setting up Siam MC Trading to engage in trade with East European countries. The newly formed company has recently concluded a barter trading contract with Bulgaria.

Automotive

Every East European nation needs foreign exchange. One way of doing this is through exports, and in negotiations with Japan over promoting exports, cars continue to hit the top of the agenda.

Several Japanese car companies have been approached by the governments of East European nations.

Using Prime Minister Kaifu's trip to Eastern Europe by way of introduction, Suzuki Motors has agreed to build a passenger car plant in Hungary, and Daihatsu is going to build another in Poland.

Suzuki Motors intends to construct a car manufacturing plant in the suburbs of northern Budapest.

The Suzuki "Cartas" (five door, 1,000cc or 1,300cc model) will begin rolling off the production line in 1992. The company plans to be producing 50,000 units a year by 1994.

Into the next century, Suzuki plans to manufacture 100,000 units annually. A total of 20 billion yen will be invested in the Government over the construction of an oil and chemical plant worth 50 billion yen. Toyo Menka is working with Kawasaki Heavy Industries for this project.

In Poland, Toyo Menka and Asahi Glass are conducting a feasible study to establish a 15 billion yen sheet glass plant. If realized, it will be Japan's first joint venture in Poland.

The Polish Government has also asked Toyo Menka to construct a 2 million ton cement factory. Toyo Menka is currently seeking a joint venture partner to participate in the establishment of the plant. Several Japanese cement companies, including Onoda Cement, are displaying interest.

Marubeni has set up a special section in Budapest office, aimed at servicing electronic goods. If demand proves sufficient, Marubeni plans to set up a company in Hungary to provide improved service links between Japan and Eastern Europe.

Since the privatization of the Agricultural Import Export Public Corporation in Hungary in April last year, C. Itoh & Co. has a project which will have a work force of 1,100.

Plans for the Daihatsu joint venture in Poland with a stateowned car company are moving ahead apace, although projected targets are having to be shaved down to less than initially hoped.

Production of Daihatsu's "Charade" (1,300cc) passenger car will begin in 1991, with an initial manufacturing target of 6,000 units a year. Annual production totals will gradually increase.

Financial Services

The revolutionary events of the last year in Eastern Europe have highlighted the need for a European Development Bank, to put East European national economies on the road to economic growth.

Participating in the planning of such a bank are 34 countries, including EC member nations, the United States, and Japan.

In Japan's case in the past, the existence of state-owned financial services in East European nations has done much to prevent Japanese financial investment.

"We are examining the possibilities for investment once public institutions such as the World Bank begin investing," says a top executive of a Japanese leading bank.

It is likely that the establishment of a European Development Bank will act as a catalyst for financial investment in Eastern Europe.

Electronics

Japanese electronic manufacturing companies are cautious about developing more sophisticated businesses, including plant export, technological assistance, and joint ventures with Eastern europe, to get a foot into the lucrative markets opening up there.

Among the electronics companies, Toshiba is the only company that has an office within Eastern Europe. Through its East Berlin office, Toshiba has exported TV tubes and TV sets to East Germany and TV tubes to Czechoslovakia. In 1988, over 50 billion yen's worth of Toshiba goods were exported to Eastern Europe in this way.

"We have to wait until the elections in the summer and the restructuring of political parties before we can really do anything. It's a waiting game just now," says Toshiba's public relations office.

Sharp has made progress in its export of liquid crystal manufacturing plants to East Germany. By the end of the year, the company plans to have exported 10 billion yen's worth of goods, mainly audio products to Eastern Europe. That would be a 43 percent increase on the previous year.

For telecommunication equipment manufacturers, the export of Japanese products is proving harder, due largely to restrictions imposed by Cocom. However, NEC has set up offices in Budapest and Warsaw, and is waiting for the chance to set up a full-scale business.

What the Future Holds

While Japanese manufacturing companies dream of the glowing profits likely to issue from East European markets, the Ministry of International Trade and Industry has a few stern words of warning.

"The opening up of markets and the realigning of economies in Eastern Europe is likely to take far longer than the sweeping political changes that have raced across the region. It will take at least 10 years for markets to adapt to capitalist ideals."

At the end of 1988, the Polish economy was in debt to the tune of 39.4 billion U.S. dollars, and Hungary 17.3 billion dollars. It is possible that joint ventures with Japanese companies will require the export of a certain percentage of their products, which makes the prospect of easy profits less than secure.

In fact the negotiations between Suzuki Motors and the Hungarian Government once came to standstill over export requirements.

Inflation is another trap. Poland's annual inflation rate of 60 percent is going to diminish the value of any foreign investment very fast.

East European nations, apart from Hungary and Poland, have yet to establish any stable foreign investment joint venture legislation. Foreign exchange conversion is virtually nonexistent, and there are very few institutions able to accept and deal with foreign financial investments.

Firms' Reticence To Deal With E. Europe Noted

OW0102121190 Tokyo THE JAPAN ECONOMIC JOURNAL in English 3 Feb 90 p 5—FOR OFFICIAL USE ONLY

[By staff writer Yuko Inoue]

[Text] Michio Naruto says he would rather see his company become the last entrant to the Eastern European market than be a big success in those countries.

"The best thing," he adds, "would be if no one even noticed we were there."

Naruto is a managing director of Fujitsu Ltd., a computer manufacturing giant not exactly noted for any reluctance to tap foreign markets.

But in the wake of a U.S. call last week on its trading partners to ease restrictions on the sale of strategic products to the Eastern bloc, his attitude reflects the reticence that a lot of Japanese firms feel about plunging into the new market.

Japanese companies generally welcomed the U.S. announcement of a change in its historic stance on the transfer of high technology. But analysts say two factors are unlikely to reverse their cautious approach to making deals with Eastern European nations—at least for now.

The first is their pessimistic outlook on the future of those new markets. The second, perhaps overriding reason, is their belief that any significant Japanese inroads to the area would incense the Americans.

Fearful of Friction

Specifically, Washington called for an easing of regulations by the Coordinating Committee on Export Controls [COCOM], the 16-nation group, including Japan, that has regulated high-technology trade with the Eastern bloc.

The revisions of the COCOM rules, announced by the Bush administration as part of its move to support political reforms behind the crumbling Iron Curtain, would be dramatic.

They are expected to include permission to export more sophisticated personal computers, microprocessors, optical fiber cables, digital private branch exchangers and numerically controlled machine tools. In addition, the 12-week examination period of export applications for certain products would be shortened to eight weeks.

The revisions will be discussed and voted upon during a meeting of the regulatory group in Paris Feb. 14-15.

Yet, some Japanese firms are concerned that the easing of COCOM regulations could intensify trade friction with the U.S., which has long regarded itself as Japan's lone shield against communist attack.

Hitachi Ltd. officials say the easing of restrictions will increase demand for personal computers and telecommunications equipment in Eastern Europe. But, they add, that will not be directly translated into increased sales for the manufacturers, citing poor computer sales in China.

"We expect only a small amount of business," says Katsushige Mita, president of Hitachi.

That caution is partially a result of the 1987 Toshiba Machine Co. incident, when the Toshiba Corp. subsidiary sold militarily sensitive technology to the Soviet Union, causing an uproar in the U.S.

"Most of the private firms got scared after witnessing (the reaction) to Toshiba," says Takashi Murakami, an official of the semigovernmental Japan Association for Trade With the Soviet Union and Eastern Europe.

Low trade level

Since then, Tokyo has implemented a "perfect" screening system to control the export of such products to Eastern Europe and the USSR to comply with COCOM rules.

COCOM has enabled its member countries to export 16-bit personal computers to the communist nations since last August. But no Japanese companies have even handled the products since last August.

Meanwhile, Japanese computer makers also complain that COCOM rules change frequently "according to the needs of American companies," and they now serve as a sort of weapon for U.S. firms in high-tech competition with Japan.

Japanese manufacturers' export applications are often rejected by COCOM authorities, even though, they claim, they are filed in accordance with those of similar products made by American computer firms.

MITI also cautious?

For its part, Japan's Ministry of International Trade and Industry [MITI] is expected to amend the Trade Control and Foreign Exchange Laws and revise the list of products restricted by COCOM.

But MITI officials say the ministry will not change its triple-layered, strict application screening system.

The prospects of heightened trade tension between Japan and the U.S. will force MITI to keep tight reins on Japanese companies, some observers say.

Aid to Eastern Europe Sign of Change in Policy

OW2901123890 Tokyo THE DAILY YOMIURI in English 28 Jan 90 p 3—FOR OFFICIAL USE ONLY

[Article by staff writer S.L. Bachman, "Aid to E. Europe Sign of Change"]

[Text] After years of virtually ignoring the Soviet satellites of Eastern Europe and decades of being treated as little more than a sporadic economic wind in Western Europe, Japan suddenly stepped into the spotlight in Europe with its recent pledge of billions of yen in aid.

After six months of frenzied catch-up action in the former backwaters of the Foreign Ministry that saw one official clock 300 hours of overtime in just one month, Prime Minister Toshiki Kaifu has come forth with a pledge of Y1.95 billion in aid to Poland and Hungary. Japan is now the largest contributor to the West's efforts to shore up economic support for Eastern Europe.

The new high profile in Europe marks another step in a Japanese foreign policy shift away from its myopic postwar concentration on the United States. Just how big a part Japan will play in Europe, and whether it will ever move from the economic to the political realm, is a question Japanese Government officials are not yet ready to answer.

But Europeans east and west expect Japan to play a big role, at least as donor to the East European cause, for a long time to come.

Demands for Japan to join the United States and Europe in buttressing economic and political changes in Poland and Hungary came up at the July summit in Arche, France.

When the industrialized nations appointed the European Community chief coordinator of economic assistance for Eastern Europe, some Europeans saw an opportunity for Japan to move away from its almost exclusively U.S.-focused foreign policy toward some Europe-centered foreign policy goals, according to Michael Lake, the EC's spokesman in Japan.

In part, European hopes to attract Japan's foreign policy attention bore fruit. "Japan is talking about some form of linkage with the EC," to help direct future aid plans to Eastern Europe, Lake said.

Although Japan's commitment to contribute to international society reaches back at least to former Prime Minister Noboru Takeshita, Tokyo's new commitment to Eastern Europe is still only months old. How long it will last or how much money it will involve is not yet clear.

"Our policy for economic assistance to Poland and Hungary at this moment is one-time," said a Finance Ministry official, who asked not to be named. The government is still deciding whether to extend more aid to other nations emerging from behind the Iron Curtain as well as how to take part in the proposed European development bank.

Although Prime Minister Sosuke Uno declared during the summit that Japan would pitch in with some kind of economic assistance, confirmation on the amount or nature of the aid was as scarce as popular Stalinist leaders behind the Iron Curtain.

When finally announced, Japan's offer to Poland included $500 million worth of loans from the Export-Import Bank and a $150 million loan to a fund to help stabilize Poland's economy.

To Hungary, Japan pledged $910 million, including loans of $500 million. Japan also will provide $350 million to Poland and $400 million to Hungary in trade insurance, extend $25 million to both countries in the fields of corporate management and environmental protection, and train up to 800 technicians in Japan.

Critics said Japan should have pledged a bigger bankroll. "I think they (the Japanese Government) could do a lot better," said Robert Orr, a Temple University assistant professor who has been studying Japan's foreign aid. Loans constituted the bulk of the economic assistance packages, which will add to the already heavy debt loads of Poland and Hungary, he asserted.

Foreign Ministry officials have said that the packages were not larger because Japan is unfamiliar with Eastern Europe. Japan had previously aided Yugoslavia and Romania and Bulgaria but only sporadically, officials said.

* Industrial Production Move to Europe Planned

* Semiconductor Production

902A0050A Tokyo SANKEI SHIMBUN in Japanese 8 Dec 89 p 9—FOR OFFICIAL USE ONLY

[Text] **Mitsubishi Electric Preparing for Market Integration**

Mitsubishi Electric finalized plans on 7 December for building a complete semiconductor production plant in Europe. It is presently hastening its final decision on a construction site, and will start construction as soon as the decision is made. The decision on the site is expected to be made by the end of the year, with prospective locations being West Germany, England or France.

This European plant will constitute Mitsubishi Electric's second overseas semiconductor production site, after its U.S. facility, which is scheduled to start complete production of 1-megabit DRAM (dynamic random access memory) chips from 1990.

Mitsubishi Electric's aim is to set up a system near their customers which can promptly provide semiconductors which fit the customers' needs. The move also is seen as a response to the strict policy being put forward by the European Community (EC) which would impose a tariff, following the 1992 integration of the EC market, on all semidonductors not produced entirely in the region.

Not having decided on a construction site yet, Mitsubishi Electric has not yet made clear the details of its plans. However, [what is clear is that] Mitsubishi Electric will invest immediately tens of billions of yen to construct a post processing plant where it will assemble and inspect semiconductors, as well as start production of the 1 mega-bit DRAM on a scale of hundreds of thousands of pieces per month. It also is planning thereafter to produce semiconductors other than memory products, such as the alternate specific use IC [integrated circuit] (ASIC).

Mitsubishi Electric is expected to continue its preparations and, by 1992 when the EC integrates its markets, establish a complete production system, adding such pre-treatment processes as plating circuits to silicon wafers (base boards).

Facing the integration of the EC market, major Japanese semiconductor makers, such as Fujitsu which is moving forward in constructing a complete manufacturing plant in England for both memory and ASIC products, are forming the core of companies promoting localization.

* MC Machines

902A0050B Tokyo NIHON KEIZAI SHIMBUN in Japanese 11 Dec 89 p 9—FOR OFFICIAL USE ONLY

[Text] **Yokogawa To Cover 80 Percent of European Sales**

Yokogawa Electric will build a plant in England for manufacturing industrial measuring and control [MC] machinery, and start local production during 1992. Yokogawa will start with recorders and meters, which are in great demand in Europe. It will then manufacture decentralized automatic control systems for small-scale plant equipment. Yokogawa plans to set up a system to enable it to supply 80 percent of its sales in Europe from the new plant by the year 1995. This will represent the first full-scale local production in Europe by a Japanese industrial instruments maker.

Yokogawa already has acquired a 28,000 square-meter building site in Manchester, England for its plant. It will construct a plant with a total floor space of 3,000 to 4,000 square meters. It will begin construction in the second half of 1990, and start operation of the plant in the middle of 1992. The amount of investment for the first phase of construction will be approximately two billion yen. Production will reach a value of 10 billion yen per year within two to three years after operations begin.

Yokogawa will produce control system machinery for chemistry, steel, and paper manufacturing plants, including "uR series" recorders and "u-XL" decentralized-type control systems. It will manufacture products in accordance with independent European specifications, such as West Germany's DIN standards.

Accompanying construction of its plant in England, Yokogawa Electric will establish in England a general European region company, Yokogawa Europe, and will reorganize its existing business bases in Holland and elsewhere.

'Sources' Comment on PRC's Zou Jiahua Visit

OW1002022090 Tokyo JIJI in English 1326 GMT 8 Feb 90—FOR OFFICIAL USE ONLY

[Text] Tokyo, Feb. 8 (JIJI PRESS)—Japanese officials have taken a low-key approach to the lifting of economic sanctions against China in the fear that unilateral moves on their part might result in a backlash from the United States. Tokyo froze its new economic assistance to China, including the third yen loan, in the wake of the military crackdown on pro-democracy demonstrators in Beijing last June.

The situation appeared to take a turn for the better when martial law was lifted in Beijing and Japan resumed high-level bilateral exchanges in January. But the government, apprehensive about congressional criticism of U.S. President George Bush's attempts at reconcilation with China, remains cautious about lifting the freeze on the third yen credit program totalling 810 billion yen during fiscal 1990-1995.

The government lifted the ban on ministerial-level exchanges with China in mid-January by inviting State Planning Commission Minister Zou Jiahua as a guest of the Foreign Ministry. Later that month, a high-ranking Foreign Ministry official was sent to Beijing to discuss

the resumption of economic cooperation. But the government took a subdued view of both missions, stressing that Zou's visit was subject to some restrictions and the talks in Beijing were merely a preparatory phase in resuming economic cooperation.

In meetings with Prime Minister Toshiki Kaifu, Foreign Minister Taro Nakayama and top Japanese business leaders, Zou called for further loans and other economic assistance, stressing an improved Chinese investment environment and China's ability to repay loans. He also underscored Beijing's determination to continue with reform.

Japanese leaders, for their part, emphasized that international perception of China remains highly critical, and urged the government to renew efforts to improve its image abroad. Much of this rhetoric was intended to show the United States and other industrialized Western nations that Japan will not "jump the gun" in lifting economic sanctions against China.

Government sources added that Zou, aware of the awkward situation facing Japan if it acted independently, did not press for an early lifting of the ODA loan freeze. Foreign Ministry officials said they hoped to avoid being forced to continue to freeze the loan after April, the start of fiscal 1990.

But in the absence of U.S. initiative, Japan has no choice but to continue to follow a low-key course, biding time with ministerial-level meetings and other political networking. One consequence Tokyo wants to avoid at all cost is to give congress fuel for a new round of Japan-bashing.

Chinese Official Interviewed on Joint Trade

OW2701001090 Tokyo YOMIURI SHIMBUN in Japanese 26 Jan 90 Morning Edition p 7—FOR OFFICIAL USE ONLY

[By correspondent Yamada in Beijing]

[Text] Ma Junlei, director of the Japan Division in the International Trade Research Institute under the Ministry of Foreign Economic Relations and Trade, recently granted an interview to this correspondent, giving his outlook on Japan-China economic relations for 1990. Director Ma noted that China's domestic policy of economic belt-tightening and Japan's "freeze" on the third yen loan (amounting to a total of 800 billion yen over a period of 1990 to 1995) is having an unfavorable impact on Japan-China economic developments. Saying that investments by Japanese enterprises during the year will fall short of the 1989 level, he predicted that Japan-China trade will flatten out, and that if there is an increase, it will be only minimal. Questions and answers exchanged are as follows:

[Yamada] Following the lifting of martial law (on 11 January), there was an agreement to begin a preliminary survey in relation to the third yen loan, and, more recently, Zou Ziahua, minister in charge of the State Planning Commission, visited Japan. We may be able to say that there are signs of improvement in Japan-China economic exchanges which have been stalled since the crackdown in regard to the Tiananmen incident.

[Ma] The Japanese Government is showing an attitude of wanting to normalize economic relations with China, but private enterprises have not changed their cautious attitude. China has been stabilized politically and socially. I hope Japanese enterprises will become more positive. On the domestic economy, the belt-tightening policy will continue for the time being. If the third yen loan gets delayed further, it will have an unfavorable impact on the Japan-China economy.

[Yamada] Specifically, what is your forecast for the economy?

[Ma] To effect an improvement on the international payment position which has been on the minus side for some time, there is no other choice but to continue to contain imports this year. However, I would like to note that the "import containment on some raw materials" announced by the party headquarters (in November last year) does not suggest a new policy direction, but is the expression of the Chinese Government's determination for an improvement of the international payment position. If imports of production materials like steel products are curtailed, domestic economic construction efforts will be hampered. We will import essential materials. However, because of the third yen loan's delay, imports from Japan of construction machinery and trucks will probably have to be postponed, which will result in keeping overall imports from Japan stagnant.

[Yamada] What about exports to Japan?

[Ma] Right now, we are in the process of selecting enterprises to export their products, and carrying out the efficiency improvement programs for them. This whole year will remain tough for the export industries of the country. I think it will be after 1991 that exports to Japan will grow.

[Yamada] I believe you are concerned about the state of Japanese direct investments in China.

[Ma] Japanese enterprises have become too cautious since June (the crackdown in Tiananmen). The Chinese Government, through such offices concerned as the State Planning Commission and the State Administration of Taxation, is studying plans for ways to improve investment conditions. I would like the Japanese Government to encourage direct investments by Japanese enterprises in China.

[Yamada] What do you expect from the Japanese Government specifically?

[Ma] There should be ways of doing it—for instance, giving a tax favor to facilitate the Japanese enterprises' direct investments. We have particular hopes on small and medium enterprises of Japan in this regard.

[Yamada] In December last year, the exchange rate for renminbi against the U.S. dollar went down by 21 percent in the first depreciation in 3 years and 5 months.

[Ma] I have not actually done a trial balance sheet to determine the effect the renminbi depreciation will have on export promotion and import containment. The existing conditions make it difficult to expect much of an effect from the depreciation. Some people are said to be predicting another depreciation, but I think there is no need for another depreciation for the time being.

PRC Requests First Batch of Third Yen Loans

OW0402062890 Tokyo JIJI in English 1432 GMT 3 Feb 90—FOR OFFICIAL USE ONLY

[Text] Tokyo, Feb. 3 (JIJI PRESS)—The Chinese Government has requested Japan to finance 17 projects under the third yen loan program, government sources said Saturday. China has told Japan that the 17 projects, which costs some 100 billion yen, should be subject to the initial-year portion of the program.

Japan plans to provide China with 810 billion yen in low-interest credit over six years from fiscal 1990 starting in April to finance a total of 42 projects. Projects cited in the latest request include the Wuqiangxi Hydropower Plant construction and two other projects continuing from the second yen credit program, the sources said.

The government will examine the request and send a survey mission to China in March, they said.

Talks on the third program were suspended in the wake of China's military crackdown on pro-democracy movements in June last year, but the two countries reached a basic agreement in mid-January to resume the talks, after the Chinese Government lifted a seven-month-old martial law in Beijing earlier in the month.

The specific timing for the resumption of the talks will be determined after careful examination of relevant factors including when the World Bank will resume loans to China, the sources said.

Column Suggests Changing Approach to Beijing

OW2801123190 Tokyo THE DAILY YOMIURI in English 27 Jan 90 p 9—FOR OFFICIAL USE ONLY

["Currently Speaking" column by YOMIURI SHIMBUN staff writer Yasuhiko Shibata: "China Seen Sadly Lacking as East Europe Blossoms"]

[Text] One by one, Western nations have begun to abandon the economic sanctions imposed on China following last year's Tiananmen Square massacre.

Although Japan has resumed part of its yen loans to China and intends to increase economic aid to the country, the Chinese economy, shackled by the nation's Communist Party, holds nowhere near the promising prospects of the East European nations.

Japan will be making a grave error if it deals with China in the same manner as before the pro-democracy demonstrations.

In its recent report on the present state and prospects of the Chinese economy, the North Atlantic Treaty Organization points out the following problems:

—The Chinese Government's fiscal deficit in 1987 increased to some $8 billion, or 2.7 percent of its gross national product (GNP).

—The nation is short of domestic supplies of fuel and materials.

—Joint ventures with overseas firms are precarious due to management problems and a shortage of foreign currency.

According to informed sources, Chinese GNP in 1989 was 1.59 trillion yuan, up only 4 percent from the previous year. High inflation was still an issue in 1989, with annual retail prices standing at a 17.8 percent increase, down from 1988's 18.5 percent mark.

Despite a smaller budget for fiscal 1990, State Planning Commission sources say, the Chinese Government cannot avoid increasing its defense spending. They say that this is largely due to the fact that the military has more say since the Tiananmen upheaval.

With regard to China's 1989 trade balance, its exports increased by 10.5 percent to $52.5 billion, while imports increased 7 percent to $59.1 billion. As a result, the trade deficit reportedly expanded to $6.6 billion.

After analyzing its economic index we can see that the Tiananmen affair has hit the Chinese economy.

Japan must take steps to promote aid and cooperation with China that is linked to particular agreements, and not continue to feel that it is compensating for its wartime invasion.

East European nations are planning to shake off their political and economical shackles and establish a free social system but China has no intention following this trend.

Japan must change its style of approach with China and we should accept that China is not Eastern Europe.

Private companies have to thoroughly assess all deals in advance, judging whether they can secure profits or not.

The government is in the same situation as any company. Although it is providing yen loans and other aid to China, the Japanese Government must transfer its focus to improving health care, education, and housing in China.

PRC Seeks Artificial Intelligence System

OW3101132290 Tokyo NIHON KEIZAI SHIMBUN in Japanese 30 Jan 90 Morning Edition p 13—FOR OFFICIAL USE ONLY

[Text] Nippon Steel Corp. will soon export to China an artificial intelligence (AI) computer system for stable operation of blast furnaces. This will be done at the request of Zou Jiahua, China's minister in charge of the State Planning Commission who recently visited Japan, and the system will be used on the planned No. 3 blast furnace of the Baoshan steel refinery in Shanghai. Nippon Steel Corp. will first study if the export violates rules of the Coordinating Committee on Multilateral Export Controls (Cocom) and will conclude a formal contract within the year. This will be the first time for China to use an AI system on a blast furnace.

The No. 3 blast furnace of the Baoshan steel refinery is scheduled to be completed between 1994 and 1995 and will be a superlarge furnace with an interior capacity of 4,000-5,000 cubic meters. The furnace itself will be built by China as was the No. 2 blast furnace, but the Chinese side is requesting the cooperation of Nippon Steel Corp. in providing construction and operation technology and in making an AI system available.

Interior temperatures of blast furnaces are as as high as 1,500 degrees centigrade, and it is difficult to watch flaming pig iron with the naked eye. Therefore, the operation of furnaces usually depends on the intuition of skilled technicians. In Japan, refineries are increasingly installing AI systems on their blast furnaces.

Nippon Steel Corp. plans to export the "ALIS" system now used on its No. 3 and No. 4 furnaces after modifying it to suit the Baoshan refinery. The system is composed of a central processing unit (CPU) and a set of software incorporating experts' knowhow and judgment.

PRC Requests Yen-Based Loans for 17 Projects

OW1202140990 Tokyo NIHON KEIZAI SHIMBUN in Japanese 4 Feb 90 Morning Edition p 3—FOR OFFICIAL USE ONLY

[Text] The third yen-based loans to China, which amount to 81 billion yen, will cover a total of 42 projects from fiscal 1991 to 1995. According to a government source, China has requested that Japan provide loans to cover 17 first-year projects, including the Wuqiangxi Hydroelectric Power Plant project. The government has decided to examine these projects while watching the moves of the United States and European nations.

The third yen-based loans have been frozen since the Tiananmen incident. However, since China has lifted martial law, preparations have been made for reopening the loans. It is observed that China has made its request for the first-year loans for the 17 projects on the basis of the Japanese Government's moves. As an initial step, the government will send a study group from the Overseas Economic Cooperation Fund to China in March.

Government Asks Firms To Defer Resuming Business

OW2901062390 Tokyo NIHON KEIZAI SHIMBUN in Japanese 28 Jan 90 Morning Edition p 3—FOR OFFICIAL USE ONLY

[From the "Undercurrent" column]

[Text] Although conditions suddenly seem ripe for resuming Japanese economic cooperation with China in view of China's lifting of martial law, the Japanese Government seems to be asking industrial circles to "continue self-restraint for a while." This is because the government is concerned about the United States, which is still unable to plunge into full-scale resumption of aid to China, and thus pending big business projects with China are "bound hands and feet."

Immediately before Chinese State Planning Commission Minister Zou Jiahua's visit to Japan there were rumors that "a big Japan-China joint venture project would likely be signed." However, Minister Zou returned home without any concrete plans being disclosed.

A government source lamented that "China had been preparing for signing a contract on a joint venture with a big Japanese electronics manufacturer until immediately before the trip." The Japanese Government, which got wind of these moves, reportedly called on industrial circles to maintain self-restraint, while also working on the Chinese Government to put off the contract.

The government's influence is also believed to be the reason why negotiations for a joint venture project in the field of integrated circuits and electronic automatic exchanges, which the NEC Corporation and the Chinese Government had been conducting for 4 years, were stopped at the final stage, without being able to reach an agreement.

Other joint venture plans with China, including those in the fields of video tape recorders and steel, have also been halted at the final stage, despite the ripening conditions for resuming cooperation with China.

The reason for the Japanese Government's prudence is that it is apprehensive that "if Japan goes ahead of the United States, which wants to take the lead in resuming aid to China, it will upset Japan-U.S. relations." A senior official of the Ministry of International Trade and Industry [MITI] recently revealed that a Japan-China investment promotion organization will be established in late March. It is believed that the government has conducted detailed prior consultations with the United States on this matter.

Industrial circles, which were called on to exercise self-restraint by the government, are currently reacting calmly. The prevailing view is: "Since business with China should not be conducted in haste, there is no need to rush things to the extent of going against the government's will." With regard to the duration of the self-restraint, which has been weighing on their minds, they

believe that "it will be lifted before or after the establishment of the Japan-China investment promotion organization."

Japan-China business, which has been suspended since the Tiananmen incident, is likely to be resumed in April, but a certain segment among industrial circles is concerned that "this again may be swayed by developments in the United States."

DPRK Wants To Start Pyongyang-Nagoya Air Service

OW3101021690 Tokyo SANKEI SHIMBUN in Japanese
27 Jan 90 Morning Edition p 1—FOR OFFICIAL USE ONLY

[Text] Pak Kyong-yun, overseas representative of North Korea's "Kumkong-san International Travel Service" (with its headquarters in Pyongyang), who is visiting Japan to inaugurate an air service between Nagoya and Pyongyang, via Shenyang in China, by chartering planes of the Civil Aviation Administration of China, granted an interview to SANKEI SHIMBUN on 26 January. In the interview, she disclosed that North Korea is taking economic liberalization measures. North Korea has reportedly already started works to open an international airport at Wonsan in the eastern part of North Korea to promote tourism, and is planning to hold a commodities fair in Hong Kong this summer.

The series of policies are being promoted under the leadership of Secretary Kim Chong-il, President Kim Il-song's son and his successor, according to Representative Pak. She also said: "North Korea's backup of my free activities abroad to promote the project exactly proves that it approves open-door policies."

Moreover, representative Pak pointed out that assistants, who are in their 40s, are advising Secretary Kim Chong-il, and they understand that it is necessary to promote joint ventures with capitalist nations of the West to rebuild a stagnant economy.

Reportedly, Secretary Kim Chong-il works 16 hours a day without taking holidays so that President Kim Il-song, who is concerned with Chong-il's health, instructed him to reduce the work load.

Regarding sudden changes in Eastern Europe, notably a political change in Romania which was under dictatorship, on the other hand, representative Pak explained that study meetings of regional and factory-level are being held in Pyongyang and other places to inform the people that former President Ceaucescu was executed because he opened fire on Romanian people and illegally accumulated wealth. She also disclosed that the people are being taught that such a problem does not exist in North Korea.

The "Kumkong-san International Travel Service" is one of three private joint venture enterprises North Korea established in the fall of 1988. Representative Pak Kyong-yun, a businesswoman who has a U.S. citizenship, holds management rights in the three enterprises. She plans to internationalize the development of tourism.

North Korea, as a part of its plans to promote tourism, started to repair the former military airport in Wonsan to change it to a private international airport, and is promoting plans for development of tourism at the western seaside near the cease-fire line with the ROK.

Regarding the new air route between Nagoya and Pyongyang, negotiations will be conducted with the Transportation Ministry by 31 January. Representative Pak wants to fly the first test flight of the air service by 15 March at the earliest.

Japan Negative on Service Plans

OW3101112390 Tokyo SANKEI SHIMBUN in Japanese
27 Jan 90 Morning Edition p 1—FOR OFFICIAL USE ONLY

[Text] Regarding North Korean (DPRK) tourist agency's plan to inaugurate a new air service between Nagoya, Shenyang, and Pyongyang by using chartered planes, Foreign Ministry Spokesman Watanabe said on the evening of 26 January that "no application has been submitted," and that "frequent direct flights will be problematic." He thus disclosed a view that the Japanese Government is negative about approving the plan to inaugurate the new chartered air service under the current situation.

Mr Watanabe pointed out that Japanese travelers have to obtain passports, designed exclusively for one trip to North Korea, and said that "when an application is submitted, there will arise problems regarding such procedures as entry into and departure from Japan." He then continued: "There is no governmental contact between the two countries. We have to study the plan within the framework of future overall relations with North Korea."

Other Countries

Tokyo Warms to Nicaraguan Canal Project

OW1402184890 Tokyo JIJI in English 1249 GMT 14 Feb 90—FOR OFFICIAL USE ONLY

[Text] Tokyo, Feb. 14 (JIJI PRESS)—Japan has warmed to a plan to build a canal across Nicaragua linking the Atlantic and Pacific oceans, Jorge Huezo Castrillo, Nicaraguan ambassador to Japan, said Wednesday.

Japan had been cautious about the plan, fearing a backlash in its relations with the United States. But government officials have indicated that Japan is willing to discuss the plan if the Feb. 25 Nicaraguan elections are judged "free and clean" by the 800-plus official

observers from the United Nations and other international organizations, Huezo said.

Nicaragua hopes Japan will give its blessing to the canal project, thereby encouraging Japanese private-sector participation. Leading Japanese trading companies, banks, construction and other firms have already expressed considerable interest in the project, Huezo said.

Nicaragua will also seek technical and financial assistance from Tokyo, although it is not clear what form such support would take. Japan does not give official development assistance (ODA) to Nicaragua.

The plan envisions a 220-kilometer-long waterway across the Central American isthmus as an alternative to the Panama Canal. It also calls for the creation of a hydraulic electric generation and irrigation plant, an agro-forestry project, industrial park, a techno-garden city and resort development. The total cost for the canal alone is estimated at 14-15 billion dollars, Huezo said.

Japan and the United States stand to benefit most from the creation of a new Central American canal, the ambassador said. He said the United States is interested in the scheme, but did not elaborate on the level or extent of discussion. France, West Germany, Canada, Brazil, the Netherlands and Italy are among other countries that have shown interest, Huezo said. A multinational corporation to supervise the planned project would negate the need for military protection, he said.

Japan To Provide Technical Assistance to Iran

OW1402182990 Tokyo SANKEI SHIMBUN in Japanese
9 Feb 90 Morning Edition p 1—FOR OFFICIAL USE ONLY

[Text] Iran will start a 105,000-hectare paddy field reclamation project on the coast of the Caspian Sea with Japanese cooperation. This was disclosed by a government source on 8 February. Reportedly, an agreement in principle on the outline of technical cooperation has been reached between Japan and Iran, and Japanese Foreign Ministry's relevant officials will be dispatched to Iran around the first half of next month to sign official memorandums. This project is part of the postwar restoration cooperation following the end of the Iran-Iraq war. The Japanese Government plans to dispatch technical experts of Japan International Cooperation Agency (JICA) to Iran as early as June. Since the issue of Iran-Japan Petrochemical Company (IJPC) has been settled, the government anticipates that "this is a beginning of new Japan-Iran relations."

The purpose of this project is to turn the marshland along the Aras River, which flows into the Caspian Sea, into a paddy field. Climate of the region is similar to that of Japan. Currently, the region is used for growing rice on a small scale.

The Iranian side wants to expand the scale of production at one stroke by introducing Japanese modern agricultural technology and machines. According to the agreement in principle reached recently, five or six Japanese experts on agricultural techniques will stay at the project site to teach the Iranian side wide-ranging rice growing techniques, including reclamation of rice paddy, skills for operating such machines as tractors, and improvement of rice quality.

Regarding the technical cooperation agreed upon this time, the Japanese side was in a hurry for the realization of government-level negotiations, and took the measure of dispatching an investigation mission, consisting of government specialists, to Iran in October last year under the agreement reached at the Japan-Iran foreign ministerial talk, which was held in time for the United Nations General Assembly held in New York in September last year.

The government, after completing investigations, came to the conclusion that it was necessary to actively support Iran's postwar restoration projects as one of a few friendly Western nations to Iran. Thus, the government decided for the time being to take a measure to support the agricultural development project in the coastal region of the Caspian Sea as a concrete step of cooperaton.

Iran is not eligible for cooperative funds because its annual per capita gross national product was $3,090 (in the fiscal 1983). Because of this, the government cannot give a new cooperative fund without compensation or yen credit to Iran. Thus, the government wants to put emphasis on technical cooperation for the time being. In addition to positively promoting a plan to send specialists after receiving a request from the Iranian side, the government plans to increase the number of Iranian trainees who want to study in Japan by a large margin. Japan accepted 44 Iranian trainees in 1988.

* Corporation Money Shaking Up Markets

902A0059A Tokyo NIHON KEIZAI SHIMBUN in Japanese 22, 23 Dec 89—FOR OFFICIAL USE ONLY

[22 Dec 89 p 7]

[Text] Corporate funds for strategic investment are running wild through financial and securities markets shaken by interest rate increases. By procuring large amounts of low-cost funds from the capital markets, corporations are building financial structures that withstand some degree of fluctuation in the economic climate. They have embarked on a formidable course of action that will turn interest rate increases to an advantage, rather than increases in interest rates which have directly hit the profits of the financial institutions that handle corporate funds for strategic investment. They have begun sketching a scenario completely different from past period of high interest rates.

Piling Up Profits Through Operations; Procuring Capital With CP [commercial paper] and Putting It Into Large-Lot Time Deposits

"Capital procurement costs have risen, so we are increasing our issue." In the domestic CP (Commercial Paper) market that has come to be a powerful means for corporations to procure short-term funds, phenomena that conventional wisdom until now held unthinkable are occurring one after another.

Interest Rate Hikes Spur Increased Issues

With two cuts in the official discount rate since the start of the year, CP issuance costs—which in the spring were in the 4-percent range—shot up to the 6-percent range. However, end-of-November issue volume not only failed to fall but both new issues and balances reached record levels. Sumitomo Corporation increased its issue by 422 billion yen over the preceding month, and a number of other well-known financial strategists, such as C. Itoh & Co., Ltd., Mitsubishi Corporation and Nippon Oil Co., Ltd., also increased their issues.

These companies operated virtually all the funds which they had until now procured through CP issues as large-lot time deposits, thereby solidly beating the interest rate spread. However, interest rate spreads, which reached 0.3-0.4 percent at their peak, have shrunk to about 0.1 percent due to interest rate hikes. Even so, these firms can still make money on the interest rate spread. "In order for them to maintain fund operation profits at levels comparable to those of a year ago, it became necessary for companies to increase their issuance three- or four-fold," says Sumitomo Managing Director Shuichi (Koshio), explaining the increased corporate issues.

In November, Toshiba Corporation procured a total of 420 billion yen in funding by issuing domestic convertible bonds and Euro-dollar-denominated warrant bonds (industrial bonds with common stock subscription rights). It was Toshiba's biggest single fundraising effort ever, and most of these funds were put into large-lot time deposits.

Beginnings of Subsidiary Business

Toshiba's operating profit, which indicates its earnings from its main business, has already caught up with and surpassed that of rival Hitachi, Ltd.; if it can raise its financial returns, it is not impossible that Toshiba will also surpass Hitachi in recurring profits as well. Nor is this recent large-scale fund procurement simply a collection taken up for investment in plant and equipment. "Our company, too, has finally been able to enter the ring with the technologically advanced investment firms," says Finance Division General Manager Masao Tachigi. These moves on the part of Sumitomo and Toshiba indicate that such technologically advanced financial planning is being woven into corporate management as a subsidiary business.

At the September interim settlement of accounts, expenditures and earnings for the 1,029 firms listed in the first section of the Tokyo Stock Exchange showed a deficit (excess spending) of over 820 billion yen, but financial income (interest and dividends received) also increased by 47 billion yen over the same period last year, greatly exceeding the increase in expenditures (interest and discounts paid).

Domestically and abroad, the funds that listed firms have amassed in the 3 years since 1987 through capital increases, convertible bonds and warrant bonds now total 56 trillion yen. The self-financing ratio, which shows how far plant and equipment investment funds have been made up with funds on hand, has exceeded 100 percent since the March period of 1988 (Tokyo Stock Exchange corporate average), indicating that companies have money left over even after making the necessary investments.

"Rushed Procurement" Spurs Recirculation

These funds are accumulating inside the corporations in a variety of forms, including stocks, securities and designated money in trusts. The corporations have created financial structures that withstand some degree of fluctuation in interest rates.

On 19 December both stocks and securities were sold in anticipation of a hike in the official discount rate, creating widespread apprehension of interest rate increases. A focus on corporate profits, too, fueled uneasiness over the performance of some of the basic materials industries. "If performance deteriorates and it looks as if stock prices also will fall, problems will occur with the cycle of planned fund procurements," warns Mitsubishi Estate Vice President (Yasunari) Ota. Warnings such as Ota's express a fear that the mechanisms of an expanding economy, good corporate performance and a rising market will reverse themselves.

This atmosphere "fuels corporate desire to procure funds even further," says Nikko Securities Managing Director Takeo Nakanishi. Debt-burdened firms like steel companies, power companies and trading houses are thought to be studying fund procurements for the early part of next year. "There's no guarantee that an expanding economy and a market supported by that economy will last forever," says an executive of a major trading company. "So it's wise to procure funds early." Such "rushed procurement" has temporarily swelled corporate funds for strategic investment even further and appears ready to spur a recirculation back into the financial markets.

[23 Dec 89 p 5]

[Text] **Deeply Troubled Financial Institutions**

Inverted Interest Rate Spreads, Depressed Operations Accelerate Decline

"Once again we have difficult choices to make," said Fuji Bank Managing Director Yoshiaki Yamamoto gloomily on the 19th, when the Bank of Japan suddenly considered a third hike in the official discount rate.

Fuji's Asset and Loss Management (ALM) Committee had been meeting once every three months to regularly review fund procurement and operations strategies in an effort to avoid risks; in the September meeting there had been a heated debate over whether to sell the government bonds that are the nucleus of the bank's investments or to hold onto them. The ALM Committee's December meeting is coming up soon and is likely to be even more contentious and less amenable to a consensus than the last one.

Negative Spread on Government Bond Investments

What troubles the banks is the solidly negative interest rate margins (deficits) on investments in government bonds. Unlike regular corporations, banks procure short-term funding through large time deposits and negotiable certificates of deposit, which they put into government bonds. Normally the interest rate spread on such investments is quite profitable, but in June of this year the spread between long- and short-term interest rates became inverted. The difference between the two rates rose to over 1 percent, after a second round of hikes in the official discount rate in October.

A regular corporation could sell the bonds it holds in order to minimize its losses. In the case of banks, however, the matter is not that simple. In addition to having to deposit bonds with the Bank of Japan as collateral, banks run the risk of falling behind rival banks in the competition for profits if they sell bonds whose book value exceeds their current price, because they would suffer losses on the sale.

In the midst of a boom in the game of strategic corporate investment, large-lot time deposit balances at 13 city (i.e., large commercial) banks swelled to slightly less than 68 trillion yen at the end of September of this year—a 60-percent increase over the figure for the same period last year. At one bank after another, the proportion of marketable short-term funds earmarked for domestic yen-denominated funding reached about 60 percent. At the same time, the proportion of long-term loans earmarked for lending has also increased dramatically and now accounts for over half of all such funding.

The inverted spread between long- and short-term interest rates has not only led to a deterioration of profits on investments in government bonds; it has begun to affect banks' overall operations, including lending.

The biggest banks, however, have a trump card they can play: non-realized capital gains.

For example, at the mid-term mark in September of 1989, Mitsubishi Bank recorded a profit on the sale of stock of close to 140 billion yen. But a 6-month rise in stock prices gave Mitsubishi a term-end securities non-realized capital gains profit of 4.54 trillion yen—an increase of a little less than 500 billion yen over that figure for the end of March. More than just a hemorrhaging of non-realized capital gains profit, this sum enabled Mitsubishi to further strengthen itself. This condition is common to all the city banks.

However, other banks' earnings have been hard hit by deteriorating profits on loans and operations. In its September 1989 interim settlement of accounts, Tokyo Sowa Bank, which only recently converted itself into a regional bank, saw gross profits from its international division turn into a 740 million yen loss. The loss was due to the souring of interest rates on mark-denominated bonds as well, in which it had invested heavily precisely in order to offset depressed domestic operations.

Funds Recycled Into Stocks

Funneled through banks, corporate funds for strategic investment have affected life insurance companies as well. Within the insurance industry, the merits and demerits of so-called "premium loans" have recently begun to be the subject of much debate. These are life insurance funds loaned by banks to corporations and individuals.

The Nissan Life Insurance Company, which doubled its total assets in the space of one year (fiscal 1988) on the strength of premium loans and put these increased assets into high-yield foreign currency deposits, suffered losses on unfavorable forward contracts which it then had to cover with profits from the sale of stock. "Premium loans are a temporary phenomenon born of an excess of money," warns (Yoshihiro) Nakaoji, managing director of the Life Insurance Association of Japan. "They'd better start thinking about how to put this money to work."

With bond markets sluggish and land speculation under restraint, these excess funds began to flow into the stock market. In October of this year, designated money in trust and fund trust balances reached the 40-trillion yen level for the first time.

The worried trust bank managers who operate these massive funds are openly concerned that, with a general election next February, the outlook for the stock market is bleak and they must make all the money they can now.

"The excess money, while shortening its stay in any one place, is just flying around from one place to the next," emphasizes (Toshitake) Kawakami, head of Mitsubishi's Securities Investment Department. The speed with which funds take flight when risks materialize has quickened.

Managing Risk

In September of 1989, Awa Bank, Ltd., recorded an interim loss of slightly under 1.2 billion yen on its holdings in stock. It had gotten hold of highly capitalized stocks at a high price through an affiliated investment advisor. Sobered by the experience, at one stroke Awa reduced its balance of designated money in stock, which in the first half of the fiscal year had at times exceeded 1 billion yen, to about 300 million yen.

Massive amounts of money born of the trade surplus, high land prices and high stock prices are running wild throughout Japan, and in the end concentrating in the stock market—where high returns can be expected—via the financial institutions. However, the stock market is unpredictable. It is of the utmost importance that financial institutions make sure they have the organization and the strength needed to thoroughly grasp the nature of such risks as may arise and to absorb them.

* Looking to 'Golden Age' of Nineties

902A0062 Kyoto VOICE in Japanese
Jan 90 pp 90-100—FOR OFFICIAL USE ONLY

[Discussion between international economist, Keitaro Hasegawa and Tokai University professor, Hajime Karatsu]

[Text] Karatsu: I had the good luck of going abroad eight times this year. The thing that I keenly felt on my overseas trips was that the world has come to a point where it can't get along without Japanese money.

Hasegawa: I think that is quite clearly the case. For instance, a tunnel is now being built under the channel between Britain and France—entirely with Japanese money.

K: I understand that the technology is also Japanese. The digging machines would not exist, were it not for Japanese shipyards.

H: Not only that, but you wouldn't have the same precision. Japanese laser measuring technology is incredibly advanced. Using a laser to mark the center insures that there are no misalignments whatsoever. This laser measuring technology was actually developed by the U.S. Army and Air Force, but it was Japan that first used the technology for civilian applications.

K: The other day an American investor invited to Japan by Nomura Securities said that Japan has no epoch-making technologies. He really said that. But it won't be long before people realize what Japan is really capable of doing. So far, Japan has been winning by "single hits" and "squeeze plays."

H: That's absolutely right. Lasers are especially useful in architectural engineering applications. When constructing a 50-story building, the steel skeleton can't be off by even one millimeter. Fifty-story buildings in the United States can be off by as much as two or three meters.

K: I suppose that's all right if there aren't any earthquakes.... But a 50-story building is taller than 100 meters, so a one millimeter misalignment translates into an error of about 10 to the power of minus 6.

H: That's not bad.

K: In current state-of-the-art technologies, the error is 10 to the power of minus 20.

H: That's right. The error tends to be 10 to the power of minus 20 in videos and CD's.

K: During my two visits to South Korea this year, I realized for the first time that South Korea will be able to catch up to Japan. That's because Korea is becoming less and less dependent on Japan.

H: I have the same impression. I toured a South Korean high-tech industry research laboratory in 1984. When I remarked, "I have the feeling that five years from now, Japan will have advanced 10 years ahead of you. And after 10 years, Japan will be ahead 20 years," the South Koreans looked quite discouraged.

K: That's not unreasonable. After all, they don't have the capacity for development that we have. They are not able to cumulatively build upon successes.

H: They have outstanding laboratories, but there is no feedback of results to the field, and problems that arise in the field do not get communicated to the laboratory. They don't have the Japanese system of interaction between the field and the laboratory. Their system follows the American model. It's a big problem for them.

K: When I visited Washington recently, I talked with a lot of people, but when technology came up in the conversation, the Americans were all ears....

H: That probably means that they didn't know much about it. It's strange to say, but their economists don't know about technology. They are no more than analysts of balance sheets.

K: It's not enough just to look at balance sheets, because all they show is the outcome. Balance sheets don't tell us anything about the source of the results.

H: And they say nothing about the process that led to those results. Here's a funny story. When I was recently participating in a HARVARD BUSINESS REVIEW panel, I was asked, "You're very knowledgeable about technology. What university did you go to?" When I told them, they were taken aback, "You mean you didn't go to business school?!" (laughter)

Not only that, but economists don't know about field work. That makes them useless. The worst case is the Soviet Union.

Although the U.S. Has Technology, It Has No Economic Power

K: The Soviet Union is a mess. When I recently went to the Soviet Union, I talked about my experiences in Hungary. When I visited a Hungarian machine tool factory last year, I asked the factory supervisor, "When you build 10 machine tool units, how many parts for how many units do you order?" I was told, "We order parts for 30 units." I asked, "If there are no defects in any of the parts, what to you do with the extra parts?" They made a gesture toward the river flowing by the factory.

H: Oh, I see. They throw the parts away. (laughter)

K: After hearing that, I was told, "Well, that's Hungary. The Soviet Union couldn't be that bad." I replied, "No, it's worse." (laughter)

H: Supposing one puts in an order for 10 units. Only seven are delivered. The reason is that Japanese steel yield is 93 percent. An output of 10,000 tons of raw steel yields 9,300 tons of steel. But in the Soviet Union, the yield is 62 percent.

K: Now I can see why. Another interesting thing is that in the Soviet Union, even if steel is produced, no trucks come to take it away. When it is finally delivered, there is no place to store it. Meanwhile all of the capital lies dormant, but it doesn't seem to bother the Soviets.

H: That's right, because there is no such thing as bankruptcy and no interest to pay.

K: No matter how hard Gorbachev may try, there's nothing he can do about this situation.

H: Here's another funny story. Twenty-five years ago, Toshiba built a refrigerator factory in Baku, but there has not been even one model change over the past 25 years.

K: I guess not. When I spoke at New York's Japan Society, I mentioned that 150 new facsimile machine models appeared in Japan last year. That's one every three days. However, a friend of mine who is stationed in Washington says that if you go to a store selling household appliances, you can find GE models from 15 years ago still on sale. When I heard that, I was speechless.

H: There isn't much you could have said. (laughter)

K: I guess that's how GE is. They're really in trouble.

H: The whole world is in the same shape. Even in the case of cars, which Americans love so much, Japanese manufacturers change models every 34 months, while American car makers change models every 65 months.

K: In other words, the Americans have great technology, but they're lacking in management capacity.

The 1990's Are the Age of Economic Power and Technological Power

H: It is evident that the gap between foreign and Japanese technological and economic prowess is getting increasingly larger. Thus, the 1990's will be a good period only for Japan.

K: It's not at all surprising, but it's really true, isn't it? So what can be done about it?

H: Turn everything over to the Japanese system. (laughter) There's nothing else to do.

K: The other day, Moscow called for the creation of free economic zones, in which the Soviet Government would not interfere at all. They would build factories based entirely on Japanese models, which would boost productivity two to three times current levels. That would in one stroke eliminate the lines of people waiting to buy goods in the Soviet Union. Things seem to be on the move in the Soviet Union.

H: I guess they are serious about economic reform.

K: What I found of interest was that when I later visited Hungary, the Hungarians told me that they had heard that Moscow wanted to set up these free zones and use Japanese manufacturing technology.

H: There's no doubt that the Soviets promptly told the Hungarians what they intend to do. The Hungarians are very interested in trends in Japan.

K: On the Austrian-Hungarian border, there is a free zone. Japan was asked to support this enterprise, since Hungary is one of the more progressive Communist bloc countries.

H: Hungary is the only one that's any good. All the others are bad.

K: It's even within the realm of possibility that Hungary could join the EC.

H: If that happened, it would ruin the EC. In any case, the EC could not be united. If it became united, Germany would benefit most of all....

K: You're quite right. On a recent visit to France, all people were talking about was what would happen if East and West Germany were unified. There was no talk of EC unification.

H: That's what all the French are concerned about. In an interview, Mitterrand spoke openly against the unification of the two Germanies. Not only that, but it has actually come to the point that the Berlin wall has actually been torn down. For France, the day of reunification of Germany will be a nightmare.

K: That will completely change the 1990's. The post-Yalta political map of Europe will no longer be valid, and the new age will be one of economic power and technological power. Since human beings are responsible for economics and technology, value systems will be the basis for everything. Money won't be everything. That will really be something indeed.

H: When I went to France in October two years ago, there was a "golf boom." French people started to get interested in golf.

K: I wonder why French people would be interested in golf?

H: In order to socialize with the Japanese. Three things are needed to get along with the Japanese: Mahjongg, karaoke, and golf. (laughter)

K: There is now also a golf course in Beijing. Golf courses are being built all over the world.

H: To play golf with Japanese businessmen. Nothing more, nothing less. Since these countries intend to borrow money from somewhere, they hope that Japan will lend it to them. You can't play mahjongg at too great a distance. (laughter)

U.S.-Japan Frictions Will Not Be Solved in Five Minutes

K: Little by little, foreign countries are coming to understand Japan, I think. Until now, foreigners with strange ideas about Japan would come to Japan and bumble their way through business negotiations.

H: These days, however, the foreigners who are serious about doing business with us are no fools. They've learned their lessons. I feel this most keenly with the steel manufacturers. They all use Japanese technology.

K: They'd go out of business if it weren't for Japanese technology.

H: They benefit not only from Japanese technology, but also from Japanese money and Japanese management ability. The automotive industry is a good example.

K: [illegible]t venture between Toyota and GM has been q[illegible]sful, hasn't it?

H: [illegible]ndeed. It is a great success.

K: Quite a contrast to Honda. Honda was treated as an outsider coming in and setting up a factory without union participation. In the Toyota-GM joint venture, however, a GM plant was used, and the union was UAW, so there were no bad feelings.

H: I imagine that there will be more cases like this in the future. That means that since the Japanese are being let into the system, American industry will undergo restructuring.... (laughter)

K: It seems that all companies in the United States are restructuring themselves. Now that Corning has established a joint venture with a Japanese company, they're getting a lot of know-how. That Corning would do that is quite significant.

H: The fact of the matter is that they have no other way to restructure than to form joint ventures with Japanese companies, procure Japanese technology and financing, and learn Japanese management techniques.

K: People in Washington are saying all kinds of things, but there is some good news. The head of an electronics company is now the number two man at the U.S. Department of Commerce. Everybody thought he would become chairman of the board of that company, and it's too bad that he didn't.

H: Instead he became a government bureaucrat.

K: He told me that he understands the situation quite well, since he was formerly in the private sector. He said somewhat bitterly, "The trouble is that U.S. congressmen think they can solve problems in five minutes. That means nothing can really get done."

H: Absolutely.

K: In other words, they use those five minutes to get big headlines in newspapers. That's how they handle the frictions between the U.S. and Japan. It's a serious problem.

H: They all think they can comprehend the issues in five minutes. This summer, I met a number of people on Carla Hills' staff. They all said that the biggest problem is congressmen. After five minutes are up, they go on to the next appointment.

K: That Commerce Department official gave me the same amount of time that a congressman would have given to ten people. When I left his office, his secretary looked scared. (laughter) Unless the United States selects leaders that give that kind of attention to serious issues, the frictions between our two countries will not be alleviated.

H: That's true, and gradually, it's beginning to dawn on Americans. For example, when Gephardt returned to his district and started bashing Japan, you could hear people booing in the audience. (laughter) They accused him of trying to destroy the economy of their state.

K: That's a good sign. This means that Gephardt will change his tune too.

H: Things have changed quite a lot since last summer. He must have been very surprised at the reaction of the audience, and maybe a little worried that he'd lose next year's election. (laughter)

K: That's a very real possibility. Quite some time ago, Jim Jones published two reports called the "Jim Jones Report." The first one was sloppily put together, but the second one was quite good. But then the project fell apart. It's too bad that more people like him don't succeed.

H: Circumstances can change rapidly, though, can't they? If America would harness the power to change things, it could really improve its situation. The Soviet Union certainly doesn't have that capacity.

K: The Soviet Union is in a lot of trouble, isn't it?

The Day When Japan Learns the Truth About Marxism-Leninism

H: Any way you look at it, the markets in the Soviet Union and the Eastern bloc countries will come under the sway of the Japanese way of doing things.

K: People are slowly beginning to realize that.

H: Sure, they realize it, but there are a lot of stubborn people over there. They wonder why they should have to

go on bended knee to countries that lost the war. I'm not kidding. There are still people who feel that way.

K: I suppose so. It seems rather hopeless.

H: They don't feel any urgency to change things, since they are quite content with their special privileges.

K: On my recent trip to Budapest, I realized that the Hungarians harbor a deep resentment toward the Soviets for what they did during the 1959 uprising.

H: Hungary lost World War II and had to pay reparations, and it's such a poor country. The hatred runs very deep.

K: So when I heard the rumor that the Communist Party had been dismantled, I believed it. I was glad that there was finally proof that Marxism-Leninism is no good.

H: That was a great thing for the human race as a whole. However, in Japan, there is still some nostalgia for Marxism-Leninism. Old-time leftists can't bring themselves to admit that Marxism-Leninism doesn't work.

K: Just like the old imperial court music that never seems to die out, there will always be believers in Marxism-Leninism in Japan, since Japan is a country that tends to preserve things. However, I doubt that they will have any influence.

H: The thing that's interesting about Japan is that of all the countries in Asia, it has the largest number of classical writings still extant. Only Japan has preserved documents for more than 1,000 years. Eiichi Tanizawa has said that though governments may change in Japan, the new governments do not destroy the documents of the previous governments.

K: That means that in the future, if someone wants to study Marxism-Leninism, they'll have to go to Japan. (laughter)

H: It will be retained as a part of the inheritance from the past. I think that's a good idea.

No Boomerang Effect Will Result From Technology Transfers

K: The recent Japanese purchases of Columbia Pictures and Rockefeller Center were done because Japan has too much money....

H: No, I think it's because they were put up for sale. They weren't bought, they were sold. It's quite clear that Americans are making a bundle from those sales.

K: And that's because the Japanese are buying. Japanese life insurance companies have taken heavy losses because of the strong yen, but they didn't suffer any serious damage.

H: The reason for that is that if Japan is struck with an earthquake like the Great Kanto Earthquake of the 1920's, and 10 million people lose their lives, how can the life insurance companies possibly pay? The securities trading houses will be closed, so no stocks can be sold, and they won't be able to carry out transactions with New York. That's why the life insurance companies are diversifying their assets.

K: All over the world. There couldn't be an earthquake everywhere in the world all at once. However, in the United States, people can be easily fired. They can only see what's directly in front of them.

H: That's right. Aside from accounting, there are serious problems. They're always looking at the bottom line, so there's no need to be particularly surprised.

K: I mentioned earlier that the Soviet Union and Eastern Europe would follow the Japanese system. That leaves Central America, South America, and Africa.

H: There's nothing we can do but provide them with economic assistance. Speaking very frankly, Japan is more straightforward with its ODA (Overseas Development Assistance) than other countries. Japan's ODA concentrates on the infrastructure. Sixty percent of Thailand's budget for public works is derived from Japanese ODA.

K: Have we really come to the point where no matter where you go, the fruits of Japanese aid are increasing?

H: They are increasing. All progress in Southeast Asia is due to Japanese aid. Even in the Philippines, more than 70 percent of public works are supported by Japanese aid.

K: I think that we should really make a push for technology transfers. The other day I proposed to Governor Hosokawa of Kumamoto Prefecture that Japan should transfer its outmoded technologies to foreign countries that would find them valuable. This could be done through a technology transfer center.

H: It's already a reality. Sumitomo Metals intends to export its Wakayama pipe factory to China. They're rebuilding a factory that was built with 1939 technology.

K: Some say that technology transfer will result in a boomerang effect, but those are people who know nothing about technology.

H: There couldn't possibly be a boomerang effect.

K: Even if there were a boomerang effect, Japan would be way ahead of the game anyway.

Japan's "Golden Nineties" Have Begun

H: Looking at the world situation, we must conclude that the 1990's will be a time of Sino-Soviet confrontation.

K: I'm sure you're right. They have a long common border....

H: No, I mean the difference between the country that carried out the Tiananmen massacre, and the country

which allowed 10,000 East Germans to escape in one day without firing a shot. The other day, a high official of the Japanese Government was wondering which approach Japan would accept. He warned that it would be no surprise if Japan leaned toward the Soviet Union, but at the same time, it has to think of a way to proceed so that Sino-Japanese relations will not worsen.

K: China is self-sufficient in food. As long as China can feed itself, it will work hard. I don't think the Soviet Union can feed itself.

H: Last year, the Soviet Union had its second biggest harvest in history, but there is no bread in Moscow. The trains have been stopped because of civil strife, so there's no way to transport coal and grain. Thus, good harvests do not necessarily guarantee a supply of food to the people. It's such a huge country....

K: That's one of the problems with a centrally planned economy. Errors wind up being compounded.

H: There wind up being tremendous differences from one part of the country to the other.

K: People have to go to rural villages if they want to eat.

H: It's a horrible thing, but in Germany during World Wars I and II, since there was no food in the cities, city people went to rural villages with hunting rifles to steal food.

K: After World War II, Japan has gone shopping all over the world, but its markets and distribution system have been stable.

H: Buying everywhere is one thing, but plundering is another. I'm quite concerned about Poland. I heard that Japan will buy food from Czechoslovakia, which has the most abundant food reserves in Eastern Europe, and then give the food to Poland. Japan would supply only the money.

K: In other words, it's only a question of money.

H: The proposal was actually put forth. Poland is giving this urgent consideration.

K: This should be made known in the United States.

H: Actually, Japan is doing America's work. There's no other conclusion to be drawn from Prime Minister Kaifu's January visit to Eastern Europe. That means that if there is a Sino-Soviet confrontation, Japan will automatically be in the Soviet camp. This was brought to the prime minister's attention. He made quite a sour face.

K: I have known Foreign Minister Nakayama for a long time. When he returned from Hungary, all he could speak of was Hungary. He had nothing to say about Poland....

H: Improved relations with the United States would help Poland greatly. Since Brzezinski is Polish, one would think that he would be delighted to help his relatives. Helping the Soviet Union will improve U.S.-Japan relations.

K: I really think so.

H: If you look at it this way, the 1990's will really be a "golden age" for Japan.

Technology will be a limitless resource for Japan. If Japan's economic and technological power grow, Japan cannot be beaten by foreign countries, even if it becomes isolated.

K: In other words, there will be almost no domestic problems for Japan during the 1990's.

H: No problems at all. Please let me know if there are any. (laughter)

Collapse of International Economic System Feared

OW2801011190 Tokyo ASAHI EVENING NEWS in English 27 Jan 90 p 6—FOR OFFICIAL USE ONLY

["Economic Globe" column article by Yoichi Funabashi, ASAHI SHIMBUN senior writer: "Teachings of Two Articles—and a Hidden Warning to the Japanese"]

[Text] Koji Watanabe, deputy minister for foreign affairs and esteemed strategist of the Foreign Ministry, fears that the Japanese corporations have lost their self control and may worsen relations between Japan and the rest of the world. He speculates that they could even contribute to a collapse of the international economic system.

Dogged in their determination not to be outdone by their competitors, Japanese industries one and all have continued to pour resources into improved facilities, and if they cannot succeed domestically, continue to export in a torrent. This pattern of behavior is one of his chief concerns.

This all reminded me of the famous "toy automobile" theory by "Mr. X" about 40 years ago. It appeared in the summer 1947 issue of the American foreign policy periodical FOREIGN AFFAIRS, just as the Communist governments were establishing themselves in power one after the other in the political changes then buffeting Albania, Czechoslovakia, Hungary and Bulgaria.

It is now well known that this monograph, published only under the name "Mr. X," was the brain-child of George Kennan, the unchallenged American master of Soviet studies. His strategic concepts, advocating the necessity for "containment" of Soviet expansionist policies, became pillars of the subsequent American policy toward the USSR. He compared the national machine under the dictatorial power of the Communist Party to an electric toy car. "...The whole Soviet governmental machine, including the mechanism of diplomacy, moves inexorably along the prescribed path, like a persistent toy automobile wound up and headed in a given direction,

stopping only when it meets some unanswerable face." ("The Sources of Soviet Conduct," George F. Kennan).

No doubt, the Soviet Union would occasionally turn a strategically smiling face to foreign negotiators. However, it would be a mistake to welcome this as a sign of change. As the party dictatorship had taken on a semi-permanent aspect, and its diplomatic and strategic objectives were also extremely long-term, Kennan urged upon the United States and the West in general "a long-term, patient but firm and vigilant containment of Russian expansionist tendencies."

Soviet General Secretary Gorbachev's perestroyka (restructuring) program could be described as a mission to replace the toy car with the real thing, driven by real human beings.

However, this has been dismissed as headed toward a dead end, indeed, deepening the crisis, by an anonymous "Mr. X" in an article which appeared in the winter issue of Deadalus (American Academy of Arts and Sciences).

The author warns that even if there is an escape from the ultimate crisis of rule by the Communist Party, it will be a long-term one. He points out several distinguishing characteristics of the party. Unlike the other nations of the Communist world, the Soviet Unions is well into its eighth decade of dictatorship by the party. The party was not imposed upon the country by an outside force; quite the opposite, it is a group of native Russians which has successfully organized the nation against foreign attack in the past. Finally, the party has built the USSR into a military superpower.

All these factors combine to restrain the democratization of Soviet politics and economics and the change to a market economy. And, there is no reason for the West to lend a helping hand with perestroyka itself is to save the party's system of command, which has been acting to hobble the restructuring.

Nevertheless, Z points out two areas in which the West can help to accelerate reform. "First, reducing the mutual burden of armaments, if carried out with due attention to legitimate security concerns, would ease the severity of the Soviet crisis.... Second, it could be usefully applied to the piecemeal development of parallel structures in a private sector.... This could take the form, say, of free economic zones in such places as the Baltic states, Armenia or the Soviet Far East."

One thread running through the analysis of X and of Z is a kind of "protracted struggle" philosophy. Another is the common perceived necessity described by Z for an approach "without triumphalism about capitalist superiority, and with due sensitivity to Soviet national pride" and by X as an approach "so as to leave the way open for a compliance not too detrimental to Russian prestige." Z's article compares this with the handling of the Imperial system in Japan at the end of World War II:

"The West's aim should be to encourage the change of Soviet realities while leaving the old label intact—in a kind of socialist emperor-of-Japan arrangement."

There is no doubt the West must take all precautions not to tread upon the tail of the wounded Soviet lion. Also, there could be read a warning to the Japanese, who are too apt to see economic cooperation with the Russians as a foreign policy card to play. Now as the rest of the world begins to see Japan as "a toy automobile" and protectionist buttressing against Japan a la James Fallows gathers momentum, the warning is all the more timely.

* Commentator Calls for Safe Plutonium Shipments

902B0048A Tokyo SANKEI SHIMBUN in Japanese 24 Dec 89 p 6—FOR OFFICIAL USE ONLY

[Opinion Up column by SANKEI commentator, Yoshiki Oka]

[Text] **Nervous Nuclear Safeguarding**

"The Japanese believe that water and security are free," pointed out Isaiah Ben-Dasan 15 years ago in *The Japanese and the Jews*. It seems that the "deaf ear to security" still has not changed. The so-called plutonium escort issue was settled by having the Maritime Safety Agency (MSA) build a new ship for plutonium carrying vessels, but the posture of Japan toward security was well expressed in the course of matters leading up to this decision.

Three years from now in the fall of 1992, the fast breeder reactor prototype Monju of the Power Reactor and Nuclear Fuel Development Corporation will begin to operate. For fuel the Monju uses plutonium extracted from uranium burnt in power reactors. The plutonium must be brought from Great Britain and France on consignment but plutonium in itself is material for atomic bombs. A long sea journey by transport ship is a splendid target for terrorists. This is where the escort ship issue surfaced.

Advanced nations are extremely nervous about nuclear safeguarding and nonproliferation. In the London Guidelines of 1978 and the Treaty Concerning the Safeguard of Nuclear Substances in 1987, detailed regulations were established to protect nuclear substances during shipment. In the new U.S.-Japan Atomic Energy Agreement which became effective in July 1988, there are instructions for the escort of transport ships to be conducted "by the Maritime Safety Agency/Coast Guard or armed ships of other government agencies which can safeguard completely the transport ship and its cargo and deter hijacking or sabotage of the cargo."

Based on the Atomic Energy Agreement, the MSA and Self-Defense Forces (SDF) were candidates on equal terms. However, the Science and Technology Agency which is in charge of atomic energy administration, the Ministry of Transportation which is the top agency over

the MSA, and, in addition, the Ministry of Foreign Affairs, determined privately among themselves that "the MSA will do the escorting," and a formal decision was made at the Plutonium Transport Related Cabinet Preliminary Meeting on 19 December.

Increasing Threat Of Terrorism

However, there are several serious problem points with this decision.

One of these is the effective use of resources. Since the duty of the MSA so far has been coastal patrol activities and rescue, it has no patrol ship with the fuel capacity to come back to Japan from Europe nonstop. They have decided to build a new 6,500 ton escort ship, but this will cost Y20.5 billion and it will cost Y41 billion to build two. If the SDF were to escort, it would cost nothing since they could dispatch escort ships which they already have. Why, then, must they make a double investment?

Next, let's consider safety. According to an investigation made by the U.S. Department of Defense, there were 830 acts of terrorism that occurred during 1987. Moreover, year by year, they are becoming larger in scale and the threat has spread to missiles, mortars, small aircraft, high speed boats, and helicopters. In January 1985, there even was a rocket attack on NATO ships in the port of Lisbon, Portugal.

In the fall, five years ago, the cargo ship Seishin Maru carried 189 kilograms of extracted plutonium from the port of Le Havre, France, to Japan. At that time, there was a warning of a nuclear highjacking and it was escorted by the French and U.S. Navies. The passing through the Panama Canal was advanced one day before the schedule without notice. It seemed they would boldly force their way through the canal where the possibility of attack by terrorists was great.

The United States has a coast guard. Nevertheless, the Navy was dispatched and made the Seishin Maru go through the canal despite worries about worsening the relationship with Panamanian authorities. This was probably an expression of concern that so long as there was a one-tenth percent possibility of a nuclear highjacking, they would try to avoid it.

Getting back to the subject, what about Japan's considerations concerning safety? In so far as there has been a public announcement that the 6,500 ton patrol ship is equipped with two 35mm machineguns, it already is a failure as a safety countermeasure. If someone were planning a nuclear hijacking, it would be easy since coming up with methods to override the capability of the escort ship would be the only problem. In other words, the ease would be because they have exposed its weak point. In short, although the Japanese Government has considered what to do when a nuclear hijacking occurs, they haven't ventured so far as to think about "deterrents" so that no one will dare to plan a nuclear hijacking. Any nation should always try to take the most care.

Security Distorted By Diet

We are burdened with over Y30,000 per person a year to maintain a Self- Defense Force because we believe it serves a role in security. For what objective has the Maritime Self-Defense Force (MSDF) been training since it was founded? Chiefly, it has been escorting. It is the escort of ships transporting materials to Japan. This escort of plutonium truly must be the self-same inherent mission of the MSDF. Their morale is now low because they have been told, "You must stand back," even though they have been trained to carry out this mission. Legally, the MSDF has been given the authority allowing them to take over sea patrol activities if it is too much for the MSA to handle.

Nevertheless, the government's bold decision to dispatch an MSA patrol ship probably is a Diet election measure. Even if it were not, putting together the words "SDF overseas dispatch" and "nuclear" which easily causes an allergic reaction would be reflected in the vote and cause incitement in the Diet. Inherently, there will be trouble if there is no stable supply of plutonium. They do not want to take this chance. Their feelings are understood, but the security of the nation should not be rocked like this over a political decision. At least, the issues which question this national posture should be discussed more fully. The plutonium escort question already appears to be a settled decision, but we would like to call attention to it for the sake of the future.

National Affairs

* Possible Conversion of Yokota, Atsugi Bases

902B0061A Tokyo NIHON KEIZAI SHIMBUN in Japanese 7 Jan 90 p 35—FOR OFFICIAL USE ONLY

[Text] Sites which have been floated as leading candidates for the third metropolitan airport after Haneda and Narita are Yokota and Atsugi, important U.S. military bases in Japan. The premise of reversion of those bases from the U.S. military looks more promising. Reliable sources tell us that looking at the long-range implications, the change in the cold war structure with the accompanying changes in international military conditions has made the consideration of these sites possible. The idea of converting these already existing American bases into airports for private use is appealing because the acquisition of land and the need for basic preparations to build an airport would be eliminated. Further, it has also been pointed out that it is much more realistic to consider using the bases than to look for land which would be appropriate for constructing a large airport in the Tokyo area, or even considering constructing an airport in the sea.

Debates within governmental departments about building a third metropolitan airport have become quite animated recently. Last fall top ranking members of the Transport Ministry stated that "it is necessary to have it ready for 10 years down the road." Among the air paths

used for arrivals and departures from Tokyo, those used for domestic flights at Haneda will reach the overload point at the end of the nineties even if Haneda were to be moved offshore and its capacity doubled. This is something which cannot be avoided. Therefore, along with promoting second phase construction at Haneda, one of the biggest jobs facing airport administrators in the nineties is to formulate at as early a date as possible construction plans for a third metropolitan airport to supplement Haneda.

The leading sites being considered as candidates for the third metropolitan airport, Yokota and Atsugi, have: (1) runways of 2,500 to 3,000 meters which make it more than adequate for large passenger planes, such as jumbo class planes, to land and take off, (2) enough space for the necessary support functions like terminals and parking areas for planes, (3) established air space necessary for landing and take off routes, (4) easy access to the center of Tokyo by expressway and railway, with a one-way trip time of less than one hour, (5) no restrictions imposed because of climatic conditions—and so on. All these favorable locational conditions are provided. Atsugi base was even opened to private sector aircraft for temporary use in 1970 thanks to a mutual agreement between the Governments of Japan and the United States because Haneda Airport nearly paralyzed due to extremely excessive congestion.

Before the conversion of these bases became a possiblity there was a proposal that Sagami Bay, offshore Boso, and offshore Kagoshima could be hypothetical locations to serve as the shaft of marine airports for the third metropolitan airport.

However, we are now at a time in history, after the Malta conference, where the United States and Russia have declared the cold war ended, and following on the heels of this the democratization of Eastern Europe. This has all led to a rapid lessening of the possibility of an East-West armed confrontation. Further, both of the superpowers have made it perfectly clear that they are now in positions to make full-fledged reductions in military spending. Therefore, it is only a matter of time until the U.S. Defense Department begins moving toward daring consolidation of its overseas bases, including those bases in the Far East.

At this time, therefore, what was once looked on as taboo, the conversion of the Yokota and Atsugi bases to use as private sector airports, has moved into the realm of possibility. Arguments for the use of these areas are: (1) Purchase of the land is not necessary; (2) Depending on the progress in the reversion negotiations, a definite time for beginning use can be confirmed; (3) Congestion in the air over Kanto can be kept down to a minimum by new construction, etc. When compared to building an offshore airport, it is agreed that the cost of construction and the assurance of safety are superior.

In maintaining the mutual defense treaty between Japan and the United States, the future position of both bases must be examined by all related governmental ministries—the Foreign Ministry, the Ministry of Transportation, the Defense Agency. Before proceeding with negotiations with the United States, it is necessary to achieve a consensus of opinion within the Japanese Government.

* Changes in Cold War Affect Defense Policy

902B0055A Tokyo NIHON KEIZAI SHIMBUN in Japanese 31 Dec 89 p 2—FOR OFFICIAL USE ONLY

[Text] The revolution in Eastern Europe, the progress in U.S.-Soviet disarmament, and other manifestations of a "post-cold war" environment are casting a shadow on Japan's defense policy. The government is maintaining the position that there will be no effect on Japan's defense preparations, but the indications are already there, and the Japan Defense Agency is not concealing its concern. We have identified three factors which have come to threaten what has long been considered the "sacred territory" of defense preparedness.

1. Increasing Pressure to Buy American-Made Weapons (Off the Shelf)

Study of the Multiple-Launch Rocket System (MLRS), the introduction of which is scheduled by the Ground Self-Defense Forces [GSDF] in their next defense preparedness plan for fiscal year 1991 or later, is in limbo. With a maximum range of over 30 kilometers and highly accurate targeting, the MLRS is a new weapon which may be called a showpiece of the next defense plan, but because the United States has been unofficially requesting the purchase of off-the-shelf items, the tale has become twisted.

A GSDF official stated that "Although high-level talks had been proceeding with the premise of production under license in Japan, when trouble arose with the Air Self-Defense Forces' next-generation support fighter (FSX), the attitude of the American side changed completely." As was the case of the FSX, the reason is that it is not possible to prevail upon the U.S. Congress, which is concerned over the outflow of high-level technology under licensed production. For the Japanese side, considering the advantages for repairs and maintenance, licensed production involves no compromise. Even inside the GSDF, frustration has led to the attitude that "if we are forced to accept unreasonable demands, we don't need the MLRS."

The items requested to be purchased off-the-shelf are not limited to MLRS. The defense expenditure authorization for fiscal year 1990 approved by the U.S. Congress in November included a non-binding provision asking that Japan purchase off the shelf such items as Airborne Warning and Control Systems (AWACS.) Moreover, in the wake of the defense-cut plans now under consideration in post-cold war America those items will further increase, and this is the source of a new apprehension at the Japan Defense Agency.

The depth of those cuts has been reported to be $160 billion over the three years from fiscal year 1992 to 1994 (equal to over 5 years worth of Japan's defense budgets), and in the American defense industry the trend toward personnel reductions and asset sales has already surfaced. In fact, concern is spreading among the uniformed soldiers who actually use the equipment that "Japan's weapons market will be made the target of an effort to use up some of America's excess production capacity," and one civilian official expressed his misgivings that "from now on in the talks on U.S.-Japanese defense cooperation, more than 50 percent of the negotiators will probably be from the Department of Commerce."

2. Slowdown in Rate of Growth of Defense Spending

The current Medium-Term Defense Preparedness Plan (fiscal year 1986-90) was in reality achieved as a pledge to the United States, and until now defense spending has been seen as a "sacred cow." However, that seems about to change with the next defense plan. A Defense Agency official, frankly acknowledging the financial authorities hard-line, said "Setting aside the budget for fiscal 1990, it is clear that the Finance Ministry has the intention of holding down the next defense plan which starts in fiscal 1991."

Along with the United States, the Soviet Union has decided on a policy of cutting defense spending by 8.3 percent in fiscal year 1990. It was confirmed at the Malta summit that agreements would be sought next year in the Strategic Arms Reduction Talks (START) and the talks on Conventional Forces in Europe (CFE), and in light of such international conditions, the viewpoint has developed inside the Defense Agency that "in the next defense plan it will be difficult to achieve a real growth rate of 4 percent, let alone the 5.4 percent of the current plan."

It is the Defense Agency's analysis that if indeed American defense spending is cut, demands for "burden sharing" and a subrogation of responsibility for sea and air power in the Far East Region will increase, and it will in fact be cause for an increase in defense spending in Japan. The agency, citing in Diet testimony such things as the qualitative strengthening of the Soviet military in the Far East Region, is trying strenuously to forestall demands by the opposition for defense cuts, taking the position that "there will be no immediate fundamental changes in the military situation in the Far East."

3. Fundamental Principles of Defense—A Trembling Foundation

The "Fundamental Principles of Defense Planning" guiding Japan's defense preparations are premised on an international situation in which: 1) the probability of an all-out military collision or large-scale armed conflict between East and West is small, and 2) there is still a possibility of a limited armed conflict in the area around Japan, and the existence of the Japanese-U.S. security apparatus will continue to play a major role in preventing an invasion. The year the Principles were formulated, 1976, was coincidentally the period of detente, and the Defense Agency is saying that "The international conditions which gave rise to the Principles were identical to those of today."

However, it can also be argued that the situation today differs qualitatively from the post-World War II cold war era of repeated intensifications and mitigations of the East-West rivalry. The Defense White Paper released in September identified the East-West relationship as "an adversarial relationship based on fundamental differences in political and economic structures and in ideology," but the opinion expressed by the Defense Agency in November on the occasion of the destruction of the Berlin wall, that "the political, economic, and ideological differences are growing weaker," reflects a major transformation.

At a press conference immediately after the Malta summit, Defense Vice Minister Nishihiro said "While, on the one hand, General Secretary Gorbachev is not holding back the political changes in Eastern Europe, he is attempting to treat arms-control in the existing cold-war framework of, for example, the CFE talks." While the current East-West relationship maintains the framework of military confrontation, it is a fact that this is a period of great transition. Faced with an unreadable situation, there are those in the Defense Agency who are beginning to hint that "if the cold-war era truly ends, the Fundamental Principles which are the product of the cold war will have to be reconsidered."

Communist Chairman Seeks All Parties' Stands

OW1602100790 Tokyo JPS in English 0928 GMT 16 Feb 90—FOR OFFICIAL USE ONLY

[Text] Tokyo, Feb 16 JPS—Tetsuzo Fuwa, chairman of the Presidium of the Japanese Communist Party, on February 15 said that all parties should clarify their respective attitude toward seven point at issue in the current general election campaign. At a press conference in the Diet building, Fuwa made public a statement entitled "Seven Political Issues To Be Clarified for the People".

Fuwa said that it was very regrettable that another open debate between party leaders cannot take place. But for the people to make a fair judgment, it is necessary for each party to make clear its policy on the point at issue.

There are many problems engaging the people's great attention, but the positions of each party have not necessarily been made clear. Fuwa pointed to seven questions on which each party should make its attitude clear. Copies of Fuwa's statement were delivered to the Liberal Democratic Party, Japan Socialist Party, Komei Party and Democratic Socialist Party on the same day.

The seven questions which the JCP Presidium chairman took up are the consumption tax, money-power politics, rice and agriculture, democracy, military build-up or disarmament, world peace, and the concept of a future government.

1) Consumption tax—The LDP should make its views clear on the problem of the future tax rate. The JSP, Komei Party, DSP and United Social Democratic Party should answer the question whether they will allow a large indirect tax in any form or under any name, or not.

2) Money-power politics—The LDP should make clear the truth about its request for a huge amount of money for their campaign fund from business circles. Whether the LDP supports or opposes political fund donations by enterprises?

It is a step forward that other opposition parties have begun to say that donations by enterprises and other organizations should be banned. But why do some parties impose conditions and not take an immediate and unconditional step?

3) Rice and agriculture—Whether to reject the liberalization of the import of rice? Whether to allow the policy of sacrificing agriculture and other weak sections to solve the trade conflict problem which has been caused by massive exports by the big enterprises based on low costs?

4) Democracy—Whether to fully accept the multi-party system, including the people's freedom of choice as to which system?

5) Military build-up or disarmament—Whether to take an immediate and unconditional steps towards disarmament? Whether to resolutely reject U.S. interference in Japan, and their demand for a military build-up?

6) World peace—Whether to regard the dissolution of military blocs and the elimination of nuclear weapons as the immediate important task for world peace? Whether Japan should take the lead in bringing this about?

7) Future government—Each party should make clear its plan for government following the general election.

Japanese Communist Party Discusses CPSU Role

OW0502194890 Tokyo JPS in English 0912 GMT 5 Feb 90—FOR OFFICIAL USE ONLY

[Text] Tokyo Feb 5 JPS—The reported move of the Communist Party of the Soviet Union to delete from the Soviet Constitution the clause which provides for the "leading role of the CPSU" was commented on, on February 4, in a statement issued by Tetsuzo Fuwa, chairman of the presidium of the Japanese Communist Party [JCP]. The statement, entitled "On the Deletion of the Clause Which Provides for the Leading Role of the CPSU From the Soviet Constitution and Other Questions" says:

1. According to a broadcast from Moscow on February 3, deletion of Article 6 of the Soviet Constitution, which provides for the "leading role" of the CPSU in Soviet society, was put forward by the Soviet leadership in a draft political program for the 28th congress to be proposed to the plenum of the Central Committee which will begin from February 5. It is also reported that political pluralism is not rejected, even though it is not regarded as a panacea. Future developments should be studied on what form the new orientation finally takes, before a judgment is made.

2. The Japanese Communist Party had declared in its "Manifesto on Freedom and Democracy" that it stands for political pluralism in a future socialist Japan and the existence of an opposition.

Chairman Kenji Miyamoto of the Central Committee of the JCP in his new year interview with AKAHATA pointed out that the Soviet-type constitutional guarantee for the leadership of a Communist Party, a common feature of the Soviet Union and the Eastern European countries, has become bankrupt by the criticism of their people. In the latest article "The Point Reached by the 'New Thinking'", I have criticized the constitutional provision of a country for the "leading role" of a party which treats it as though it is the highest state organ. Article 6 of the present Soviet Constitution says that the CPSU decides on domestic and foreign policies. This means that the CPSU makes decisions, over the heads of the representative bodies (in the Soviet Union) elected by the sovereign people of the Soviet Union. This provision is a de facto "sovereignty resting with the party" and is incompatible with the democratic principle of sovereignty resting with the people.

3. It should be noted that at the time of Lenin there was no such constitutional provision for the leading role of the CPSU. The article was inserted into the Stalin Constitution and the Brezhnev Constitution. The present proposal only means returning to the original position. The pioneering role of a party of scientific socialism (Communist Party) should be expressed by independent activity within society. Its role is not something that should be provided for in a constitution.

In no way does this mean acknowledgment for the arguments of the "collapse of socialism and communism" that the anti-communist Democratic Socialist and Komei parties are making.

JCP Issues Statement on Close of CPSU Plenum

OW1002192190 Tokyo JPS in English 0923 GMT 8 Feb 90—FOR OFFICIAL USE ONLY

[Text] Tokyo, Feb 8 (JPS)—Tetsuzo Fuwa, chairman of the Presidium of the Central Committee of the Japanese Communist Party [JCP], on February 8 issued a statement on the closing of the enlarged plenum of the Central Committee of the Communist Party of the Soviet Union. The text of the statement follows:

1) The enlarged plenum of the Central Committee of the Communist Party of the Soviet Union closed its session with the adoption of the platform for the party congress, including abolition of the article in the constitution which provides for the leading role of the Communist Party, and approval of a change to a multi-party system.

The constitutional provision guaranteeing the leading role of the Communist Party, under which national government is pre-determined by the Communist Party and imposed on the people, is a negative legacy from the times of Stalin and Brezhnev. In Lenin's time there was no such provision. With the abolition of this article it stands to reason that the CPSU has put forward a policy towards a multi-party system. This is as it should be. The JCP hopes that the Soviet Union will take this opportunity to take a major step forward toward socialist democracy.

2) In the plenum of the Central Committee, various reform plans were reportedly raised, reflecting the tough going for reform in the Soviet Union. The Japanese Communist Party will continue to watch progress, hoping that the political, economic, and social aspects of the Soviet Union are reformed from bureaucratic to democratic ways, based on the will of the Soviet people. To develop democracy further than what exists under capitalism is a true characteristic of socialism, and these steps by the CPSU do not mean the abandonment of Lenin's position on the October Revolution, as some anti-communist commentators allege.

Still less does it mean the collapse of socialism and communism, which the Liberal Democratic, Democratic Socialist, and Komei Parties allege, nor does it confirm the argument of the Japan Socialist and Democratic Socialist Parties' that social democracy is the main current in the present world situation.

3) As regards international problems, the report of General Secretary Gorbachev to the Central Committee plenum again failed to call in question the serious errors of hegemonism, committed by successive Soviet leaderships since Stalin, and which, as the JCP has pointed out, is the major factor that led to the present critical situation in the Soviet Union. At the same time, the report by Secretary General Gorbachev praised their foreign policy based on the "new thinking", saying that they reject "outmoded views" on world revolutionary processes. No discussion was reported to have taken place in the Central Committee plenum on these crucial points. It is a serious matter for the "new thinking" to go unchallenged, because it makes light of the people's struggle, increasing the danger of suppression of the people's struggle for social progress, which must be stressed in the world outlook of scientific socialism.

LDP, Government Urged To Solve Rice Issue

OW1202133590 Tokyo ASAHI EVENING NEWS in English 11 Feb 90 p 4—FOR OFFICIAL USE ONLY

[ASAHI SHIMBUN 5 February editorial: "Running Away From Rice"]

[Text] As the April deadline for submitting their final report looms, there is a growing desire among some members of the Provisional Council for the Promotion of Administrative Reform to duck the issue of the price of rice and the food control system by simply deleting the relevant sections.

Last month the media reported that the advisory panel had recommended the abolition of the 1942 law protecting Japanese agriculture. The swift and angry response of the government and the Liberal-Democratic Party seems to have been directed specifically at the council.

Under the circumstances, the members are in some respects deserving of sympathy. Nevertheless, they have an obligation to carry on the tradition established by the work of the "Doko Commission" in assuming responsibility to the people and, with their cooperation, to advance the cause of administrative reform. They must press forward, resisting the temptation to glance nervously over their shoulders for reassuring expressions on the faces of the government or the LDP.

The question of what to do about rice is arguably our most serious and urgent policy issue. As head of the provisional council that was launched in 1981, Toshiwo Doko recommended reforms that included both the food control system and the (now privatized) Japanese National Railways. At the time, food control was a budgetary problem, and the solution lay simply in reducing the deficits.

Now, however, we face a very different situation. The question is where to place rice within the context of intensifying trade friction and whether it is wise to maintain our policy of total self-sufficiency. The issue has direct bearing on the course Japan is to take as a member of the larger community of nations. Moreover, the clock is ticking.

Of course, it is not the provisional council alone that is under the gun. The political parties also bear responsibility, as we were all very much aware as we viewed the recent televised debate among the five main party leaders.

Prime Minister Toshiki Kaifu did not budge an inch in declaring that any approach to the issue is predicated upon the fundamental policy of self-sufficiency and domestic production. All of the opposition party heads maintained their opposition to rice imports and any opening of the market. Of all the matters discussed, the only point of agreement among all five was on the notion of total self-sufficiency: "Not grain shall pass!"

We wonder whether they really believe they can get away with such a policy. Are they prepared to pay the full price of saving rice? It appears that in the heat of this tough election battle, preventing the loss of a single vote has become the paramount strategy. We worry that if this should lead to an escalation in protectionist rhetoric, it will endanger the internationalist course this nation has already pledged itself to follow.

The problem is not limited to Japan. A general weakness of democracy is the tendency for would-be leaders to reach for instant popularity.

The provisional council is now under attack for being, among other things, a mere smokescreen for the Cabinet and the various ministries. Whatever the merits of such criticism, the fact is that there are quite a few such advisory bodies that are indeed quite useless.

Nevertheless, the members of the council serve a valuable function in being able to ignore popular pressures and thus to start the ball rolling toward reforms of which the political parties are loath to speak. The reason the "Maekawa Report" has earned such acclaim is that it prescribed some bitter medicine. To have abandoned that role would surely have deprived it of all substance.

In the form of free discussion, the provisional council has repeatedly deliberated on the food control issue. Whether, as was reported in the media, the word "abolish" was actually used, the scope of debate must have included the idea of sweeping reforms. The matter was also expected to form an important part of the final report.

As a Cabinet minister has already stated, the government and the LDP overstepped their bounds in expressing displeasure. In doing so, they make it impossible for any such body to form in the first place or for anyone to join it.

At the same time, we are disappointed by the council's response in rushing to end the discussion of food control. Such would hardly have been the behavior of Doko, who under the same circumstances would now be giving the government a piece of his mind.

Farmers Urged To Prepare for Rice Decontrol

OW2501140290 Tokyo ASAHI EVENING NEWS in English
23 Jan 90 p 6—FOR OFFICIAL USE ONLY

[ASAHI SHIMBUN 23 January editorial: "Rice Imports Unavoidable"]

[Text] "The logic of importing not even a grain of rice is not convincing to the rest of the world," said International Trade and Industry Minister Hikaru Matsunaga at a press conference. This blunt remark is producing ripple effects with general elections just around the corner.

In response to protests against his remark by Minister of Agriculture, Forestry and Fisheries Michihiko Kano, Matsunaga tried to pass it off as a "personal view." For the chief official responsible for trade policy, nonetheless, Matsunaga was also being quite direct about the idea of food security, the Japanese government's argument for full rice self-sufficiency, when he declared, "Given this (theory), we will not be able to ride out the Uruguay Round, where trade decontrols are being discussed."

As we have pointed out time and again, we also think that the day will come when the policy of importing not even a single grain of rice will have to come to an end. This is quite evident in a ruling under the General Agreement on Tariffs and Trade (GATT) over controls on the import of starch and 11 other agricultural products. The import restrictions accepted by GATT are literally controls but do not represent a full ban.

While attempts are made at the Uruguay Round to make a new rule on trade in produce by the end of this year, Japan's ban on rice imports has run into harsh international criticism. The nation's argument for full rice self-sufficiency was roundly rejected at the meeting of agriculture ministers from the United States, the European Community, Japan, Canada and Australia in the United States earlier this month.

Many countries, including European nations whose provisions ran alarmingly short during World War II, are sympathetic to the desire for food security, but their general argument is that it is another matter to ban rice imports. They say that attempts ought to be made to assume food security with wide-ranging measures such as increased imports from developing countries and increased stockpiles.

Prime Minister Toshiki Kaifu harshly reprimanded Matsunaga, describing his words as "amounting to an exemplification of the Cabinet's disunity." The Cabinet then reaffirmed the continuity of its policy of full rice self-sufficiency. If attempts are made to hush up what Matsunaga has in mind because of the approaching general elections, the harsh climate which prevails over controls on rice imports will never improve.

What is needed most now is to accept the reality that it is extremely difficult to maintain the conventional system of full rice self-sufficiency and to argue in a dispassionate manner about what to do about it. How would Japan be affected by decontrolled rice imports? What should be done to minimize the bad effects? What would prices be if the current policy were continued? What adverse impact would there be on consumers?

What should be avoided is the attempt to deceive famers with honeyed words, such as promises for an absolute resistance to decontrols when the government is unsure of the success of its policy of total prohibition of rice imports and is unprepared to defend controls at the cost of isolating Japan from the rest of the world.

On beef and oranges, the government and the ruling Liberal-Democratic Party used to say time and again that they would be absolutely opposed to decontrols, as did the opposition camp. When Washington came out with an uncompromising stance, however, the government was at wits' end and caved in. It had been known for some time, however, that the United States would not budge an inch. In last year's Upper House elections, voting farmers gave the cold shoulder to the Liberal-Democratic Party out of their anger over its betrayal.

The probability is high that rice will find itself in the same boat. Gagging Matsunaga, Kaifu and Kano do not seem to be convinced that they can get the world to swallow the

theory of full rice self-sufficiency. The truth of the matter seems to be that they want to keep mum because speaking their mind would hurt the party in the coming elections.

The Central Union of Agricultural Cooperatives (Zenchu) did not waste time in filing a protest against Matsunaga's remark. An unfavorable GATT ruling on imports of 12 farm products as well as the government's giving ground on beef and oranges should have taught the farmers' organizations just how hollow the pledges to check decontrols are. They must be prepared so that they do not fall into a panic when the decontrols come.

In particular, the most pressing task is reform of the food-control system to ensure structural reinforcement of the rice-cultivation system. Farmers cannot afford to be satisfied with getting the rice prices they want or postponement of decreases in the acreage of land under rice cultivation.

* Government To Modify Retail Store Law

WA0502040089—FOR OFFICIAL USE ONLY

[Editorial Report] According to a frontpage report in the 29 January Tokyo SANKEI SHIMBUN, Japanese Government sources have revealed that the government has "rethought" the "Large-Scale Retail Store Law." It plans to announce at the next round of Structural Impediment Initiative (SII) talks, to be held at the end of February, that it is considering "abolishing in 3 years" the system requiring "adjustment" with other businesses in the area before a new retail store can be established in Japan. The decision is in response to the "stern posture" regarding the trade deficit displayed by the U.S. Government to Minister of International Trade and Industry Matsunaga during his recent visit to the United States and its call for "results-oriented negotiations" to avoid countermeasures against Japan under Super 301 provisions of the U.S. trade law.

The "most effective" approach for Japan is thought to be "abolishing the adjustment system," the "core" of the large store law, which has been strongly criticized by the United States as "one of the major obstacles to participation in the Japanese market."

The sources stated that regardless of the results of the 18 February Diet elections, the Japanese will present a concrete "blueprint" to parry "the hardening in attitude by the U.S. Congress toward Japan." "Although it can be envisioned that the situation resulting from the election may become extremely serious," the sources noted that "it is necessary to give priority to repairing U.S.-Japanese economic relations at an early date."

* Talk About Japan's 'Uniqueness' Declaimed

902B0049A Tokyo CHUO KORON in Japanese Jan 90 pp 81-90—FOR OFFICIAL USE ONLY

[Article by Tokai University professor, Hajime Karatsu]

[Text] "There has never been a layoff at my company since it was founded 50 years ago. A while back, one of the managers went home doing a little dance. He found out that it was likely that there would be a big order from the Department of Defense. However, in order to fill this order, the company would have to hire more people. When it came to the question as to whether the company could retain that many extra employees after the big job was completed, the prospects looked bad. That's why I decided to resign. That made me lose my feeling of oneness with the company that had employed me for so long."

Of course, this was not a Japanese company. Those are the words of John Young, president of Hewlett-Packard, one of America's leading electronics manufacturers. Even in the United States, there are companies that are managed by people who think this way. Hewlett-Packard is no small company. Indeed, it is a large company with 67,000 employees.

The theory of Japan's uniqueness is brought up in the context of U.S.-Japan trade frictions. Japan is somehow different from western countries, and plays by different rules. Thus, even if pressure is put on Japan, nothing will change even if the rules are changed. Japanese people work too hard. Japan has an abnormally high savings rate. What on earth are they saving all that money for? Isn't money supposed to be spent? Unless they change this custom of saving so much, it will continue to be a problem for the world economy.

This theory certainly seems plausible. And in Japan itself, there are plenty of commentators who give it credibility. However, this is like looking at a forest from a distance and not seeing the trees. In both Japan and the United States, there are companies that are performing well that are managed just like Japanese companies. The employees feel that they are a part of the company and work hard. They may play a little bit, but don't go beyond a certain limit. However, God is fair. Companies that play perform poorly, the employees will be restless and will tend to leave for other companies. Even in Japan, the employees of Japan National Railroad, which was thought of as a paternalistic company, had low morale.

This was correctly and scathingly described in a report produced by MIT's Productivity Committee titled "Made in America."

The "MIT Report" Shows That "A Company Is Its People"

This committee, formed two and a half years ago to determine the direction of America's industrial revitalization, was composed of first-rate scholars such as Robert Solow, winner of the Nobel Prize in Economics, and Lester Thurow, author of The *Zero Sum Society*. The committee studied 500 successful foreign and domestic companies. If they went to companies that had failed, all that they would hear is excuses, rather than the real story. The approach they used is very important.

One of the causes for U.S.-Japan frictions is that we only hear about the companies that fail in Japan. Without exception, the companies that succeed in Japan have this to say: "It is difficult to enter the Japanese market, but once you get in, it's easier to sell than in the United States. It's not at all exclusionary." The reason why the committee concentrated on successful companies was to make a point. It is noteworthy that not one critical word was said of Japan in the whole 340-page report.

The report also says that a company is its people. However, until now, many American companies have treated their employees like parts of a machine. Even if business goes a little sour, they start laying off workers. At the same time, the executives give themselves huge bonuses.

That's why the employees don't trust the top management. It's no wonder they feel that they're just selling themselves to the company, and are content as long as they get their paychecks. However, teamwork is essential to get work done. Individualism just doesn't work. Ford succeeded in putting together a team for developing, producing, and selling cars. Until now, it usually has taken five years to develop a car in the United States, but now it takes Ford only three years, and best sellers have been produced, one after another.

Ford's sales are not as high as those of GM, but for the past three years, Ford's profits have exceeded GM's. Thus, it is important to educate employees and to develop their potential. The short-sighted American attitude toward management has weakened America's competitiveness.

When I read the MIT report, I realized that they were advocating management techniques that were just like Japanese management techniques. The report also mentioned that teamwork is part of America's heritage, and that the spirit of teamwork originated in the wagon trains during the period of settlement of the west. If the settlers had not formed groups, it would have been dangerous. Unfortunately, this tradition was lost due to the spread of scientific management methods starting in the early 1900's, whereby work was divided up and people were treated as machines.

However, people are people. By increasing the ability of the employees and working together, output can be increased several fold. This is one of the characteristics of so-called Japanese management. Of course, there is only one truth in management, namely, that the fundamentals of management are the same even in different cultures and different lands, and in different environments.

I recently visited a number of good European companies. They were French, British, and West German companies, and of course, in the better companies, the central theme of management was teamwork and respect for people. Moreover, there was always a shining historical figure from each country as a model for the employees to follow. In Britain it was the tradition of the British Navy, and in France it was Napoleon.

These examples make the theory of Japanese uniqueness look even stranger. In fact, it seems that the conclusion is given first, and then the explanation. It's as if one were to look at Japan through yellow-shaded glasses, making everything in Japan look yellow. Since everything looks yellow to the viewer, it seems wasteful to point this out. One wouldn't complain that everything looks yellow.

However, the problem is that when one makes such a claim, a lot of people will believe that they themselves are yellow. Even if you tell these people that they are white and not yellow, that's really the best one can do. Those who hold the yellow theory explain everything consistently in accordance with the theory, without contradiction, and believe everything can be explained by their theory.

In the real world, this amounts to superstition. They believe that the truth can be explained without any theoretical contradictions, and that such theories are helpful in explaining reality.

However, we do not run our companies and live our daily lives in order to be consistent. Management and daily life are struggles with reality. No matter what wonderful theoretical systems we may develop, if reality does not agree with those systems, such systems can be harmful and profitless. If told repeatedly that according to theory, your hand will not become hot if you stick it into fire, but you get burned, the explanation was fruitless. Not too long ago, the same Marxism that captured the hearts of the young, completely broke down. That is one of the biggest topics of conversation these days.

Just as the supporters of Marxism were claiming that East Germany was doing well economically, there was a stampede of young people leaving the country. One would naturally conclude that something was wrong, and that this was an indication that the Marxist theory was not quite right, since the results were not good. Politics is always judged by results.

The theory of Japan's uniqueness is held not only in the United States, but is also popular in Japan. It has been accepted at face value not only for lifestyle and culture, but also for companies, and especially manufacturing companies, which carry on their battles in the real world.

Management has to do with combining people, money and material resources to win fierce competition and to open up the path to tomorrow. Since money and materials are common everywhere, the uniqueness theory does not apply to them. The uniqueness theory has to do with people. So the theory deals with the movement of materials and money in relation to people. However, this is actually difficult to understand from outside of the company. The MIT report mentioned earlier, "Made in America," dealt only with success stories, but it is very difficult to accurately perceive events within a company from the outside.

Not long ago a well known commentator visited a number of top ranking companies and wrote some acerbic articles about them. I had friends in a number of the companies that the commentator visited. The commentator asked questions about the situation inside the company, interviewed employees about their work, and even helped out with the work. However, what I felt when I read this reportage was that he wrote very well about issues that have already been dealt with by society at large, but he wasn't familiar with the real situation within the companies. When looking at a company from the outside, even a person thought to have sufficient powers of observation can be questioned as to how far their powers of observation go. The innermost parts of a company are very difficult to judge from the outside. Businessmen who read this will no doubt understand what I mean.

Especially when a company is in a pinch, there is no way the real causes can be determined from the outside. No matter who gathers the information, each side will argue the case from its own standpoint, and will provide distorted information.

Even though I have the ability to see through things, it's still impossible to be completely objective. It is not unusual for things to happen in a company without the people within the company having a clear understanding of what is happening.

It is human nature to set such things aside and to work toward preserving the company. But there is a saying that if you have 10 people you have 10 colors. In other words, different people have different ways of doing things. There are also changes in the external environment which affect the company in ways beyond anyone's control. An example is the "high yen shock"—a change that no one could have predicted.

There has recently been pressure on Japan, especially from foreign countries. Competition has been fiercer than anyone ever expected. The situation is not simply a matter of black and white. Management has to figure out how to proceed in a world of gray. And management must be able to distinguish between black and white.

The only reliable factor in this whole thing is human nature. It is safe to say that this is the conclusion derived from the MIT report. In other words, the question is, how does a company train capable people and make full use of its talent pool. This will be the determining factor in the company's success.

Thus, we cannot use cultural differences as an explanation for the failure of a business. That would be like placing the blame on another person. It would be playing one person off against another. We can thus properly understand what the president of Hewlett-Packard was talking about. Of course, differences in society and ways of thinking will lead to differences in methodology. But the basic nature of progress will also result in differences.

Successful Companies Have Points in Common

Last October, I made a trip to Minnesota in the United States. That's where the famous supercomputer company, Cray, is located. The people there really work hard. The factory uses a lot of manual labor, and the factory operates around the clock, with 12 hour shifts and 8 hour shifts. In any case, the factory is very efficient. There are a number of computer factories in Japan, but I haven't heard of very many that have 12 hour shifts. The Minnesota factory had a high worker retention rate and there are many women who stay on after getting married. The factory is producing computers with a degree of skill that exceeds that of Japan.

When I asked about the background of the workers, I was told that the area was originally populated mainly by people of Northern European descent, and especially by farmers who believe that work is a mission given by heaven. These people really take their work seriously. They've never heard of a strike. When I walked around the plant, I observed people working harmoniously under strict conditions. I would like to show some Japanese young people the seriousness with which these people approached their work.

The low savings rate of Americans has become a problem for the nation as a whole, but the employees at the Minnesota plant had a high savings rate and have established a special system for saving.

I felt that this was an exemplary company, and was quite a contrast to companies in Detroit where labor-management confrontation is commonplace and strikes are an everyday thing, or companies in New York where people are crazy about playing money games.

I found the same thing in Europe. Last Spring, I visited a company in Bremen in West Germany that had a 70 percent share of the pet food market in Europe, and an automotive parts factory in a suburb of Paris in France. In both cases, the employees worked diligently. The factory chief knew each worker personally, and walked around the factory calling workers by name and asking about their families. Quite a contrast to the acrimonious conditions in Detroit.

At the Bremen plant, the office was a large room where the chief and his subordinates worked. Standing up, I could look over the room and see the entire arrangement. Of course, the room was not partitioned, and the atmosphere was calm and peaceful, and there were even plants in the room. I thought it was so marvellous that I took a picture of it before leaving.

I heard from Keio University Professor Haruo Wada the story about a car factory in Detroit where work in progress came to a stop the instant the bell rang at the end of the day, and workers dropped what they were doing and went home. I mentioned this to the workers in Bremen and Paris, but they couldn't believe it. It looks like Detroit is the one that's unique.

I suppose there are a number of things that could be done to rationalize operations in Detroit to bring it into line with everybody else. As it is now, employees only do the work they are paid for. If they go beyond that, it's a violation of their contract. If they make a mistake, they are protected by the labor union. Originally, the idea was that the company would pay workers for the hours they work. So any talk of work beyond that is out of the question.

One could come up with all kinds of things that need to be changed. However, the most essential element, namely, the consumers who buy the cars, is never mentioned. The employees' salaries are not paid by the company. It is really the customers who buy the cars that pay the workers' wages. Thus, customers would feel that cars produced by workers who are simply selling their time and who don't care about quality are dangerous, and would be reluctant to buy them.

Even if such cars could be sold, problems could come up later. That is what has happened in Eastern Europe. It's too bad for the people who buy the cars, but there's not much that can be done to change the rules of the game in Eastern Europe. However, in free market economies, there is competition. Since the car makers in Detroit have forgotten this principle, they have been overwhelmed by the Japanese. As I have said time and time again, management is judged by results. No matter how streamlined management may be, if the company's products lose to the competition and don't sell, the company will collapse. It doesn't matter if the management theory was right or wrong.

Management makes possible the perpetuity of the company. In order to take care of a large number of employees and support their livelihoods, managers must be omniscient and omnipotent. Companies that fail must correct their defects at all cost and bring their accounts into balance. If you use that as a criterion, then one must conclude that successful companies are the norm, and companies that fail are unique.

Fortunately, all successful companies have points in common. The MIT report "Made in America" took that position. This has to do not only with private companies, but with society at large, and politics as well.

When looked at objectively from abroad, Japan appears to be mysterious. The surface area of the Japanese archipelago makes up only 0.3 percent of the world's land area. Such a figure would be considered statistically negligible. Although Japan has 2.3 percent of the world's population, its economic power exceeds 14 percent. If you look only at these statistics, one could conclude that Japan is somehow unique. Once you accept this concept of uniqueness, you will find one thing after another that is difficult to understand. However, that's no different from looking at things through yellow glasses.

If you strip away preconceived notions, and look at the world's success stories objectively, you will find that they all have numerous points in common.

They Can't All Be Unique

Recent developments in Southeast Asia have demolished the conventional wisdom in the West. Until not too long ago, Asia was always spoken of as poor. It was said that industry developed in cold countries like in Europe. People in countries below the equator were supposed to be lazy, since they could eat without working. They could sleep on the ground without catching cold. These countries were supposed to have more food than they needed. The misconceptions abounded.

However, people should go to Singapore. This country, which is below the equator, has an area about the size of Awaji Island, one of Japan's minor islands. If you go outside at noon, the heat is tremendous. On this tropical island, you can see a modern city of a kind that you cannot even see in Japan. When you return to Japan, Tokyo looks like a jumble of rural villages.

In Singapore, you don't see a single telephone pole. There is a fantastic highway there, and a forest of high-rise buildings. Of course, the buildings have air conditioning, and are quite comfortable in comparison to Japan's muggy summers. The per capita GNP is now about one-half of Japan's, and eventually it will catch up to Britain's. Thus, if you want to talk about uniqueness, one must say that Singapore is certainly unique.

One should also consider Taiwan. In comparison with mainland China, which has the same culture and language, Taiwan's accomplishments have really been phenomenal. Its foreign reserves exceed Japan's. Moreover, the country is a tropical one. The Philippines, which has a tropical climate like Taiwan's, is still a poor country whose government would fall without financial assistance from abroad. Thus, a uniqueness theory could be proposed for Taiwan as well.

It thus seems that there's no end to theories of uniqueness. This is interesting from an academic standpoint, and could probably provide a lot of material for academic papers.

However, if used as a basis for policies and management, such theories are extremely dangerous. That's because such theories are in conflict with reality. When such theories fail, they must be replaced. But first of all, the facts have to be investigated, and efforts have to be made at real understanding. Otherwise, failure will result. Although it is said that Japanese management is successful, that only refers to the average. In fact, there are companies that fail every year in Japan.

Let's Stop Talking About Japan's Uniqueness

In the United States, there are examples like Ford, which show wonderful performance year after year, while at the same time, the famous UAW [United Auto Workers] operates in opposition to the company, which has its headquarters in Detroit. If we were to develop a theory

of uniqueness based on this example and apply it sweepingly, it would create problems.

In most cases, the theory of uniqueness is used as an excuse for failure. Companies that succeed never say that they are unique. If they were to say such a thing, it would be the beginning of the end for them.

Last October, I met an acquaintance of mine at the Commerce Department in Washington D.C. While we were discussing policy, this member of the elite, who was full of confidence, did not mention a word about uniqueness, either regarding the United States or Japan. Rather, we discussed what kind of measures to take in the future. Of course that's what we talked about. Whether government or private business, the main concern is what to do about tomorrow. Others can be concerned about how things got to be the way they are. But the question is, what to do about the future.

That is something everyone agrees on. Countries which have threatened the world with military power and terrorist acts have become impoverished and economically unstable. You might call it a kind of justice by cause and effect. The world has been fashioned well.

The first task facing countries with technological power is how to rebuild the world to create a new order. A central topic of discussion is how to use Japanese capital and technology to achieve this.

The U.S.-Japan trade imbalance has become a political problem, and when this issue is pushed too far, the question is asked, who is going to pay for the budget deficit of the United States Government?

When the stock market crash hit Wall Street on Friday, 13 October, another friend at the Commerce Department said that if the Tokyo market crashes on Monday, the world would be in for serious trouble. But he said nonchalantly that thanks to the guidance of the Ministry of Finance in Japan, everything will be all right. Things turned out just as he predicted, but the Japanese "administrative guidance" that is always criticized by the advocates of the theory of uniqueness was what they were expecting to save the day.

Thus, one shouldn't be too concerned about the theory of uniqueness. However, we should be careful lest the theory of uniqueness be used politically in some strange way. Everybody knows that theories of uniqueness lead to conclusions arrived at as if looking through colored glasses, and are separate from reality.

The other day, I obtained a document from the U.S. Department of Commerce that indicated that the amount spent on outsourcing, in other words, importing of products manufactured by American companies abroad, was $100 billion. Since the deficit with Japan amounts to $80 billion, the United States could drastically reduce its trade deficit by eliminating outsourcing. Of course that's impossible, and it would cause great dislocations in the world economy.

Actually, the interdependence will only become greater, and it will be impossible to eliminate the trade imbalance between the two countries.

The population of the United States is twice that of Japan. In order to really eliminate the trade imbalance, the Japanese would have to buy from the Americans twice the volume of products that the Americans buy from the Japanese. If one follows this logic, then the South Koreans and Taiwanese would have to buy even more than that.

It's better to carry on a debate using solid statistics than to just repeat theories of uniqueness. In order to avoid things getting too emotional, everyone should be provided with the objective statistical figures. Japan buys large quantities of both agricultural goods and manufactured goods from the United States.

In the area of aircraft, in which the United States is strong, Japan is the biggest buyer of Boeing jumbo jets. Since economics is not philanthropy, people will not buy things that are not competitive. The reason why sales of German cars have increased greatly while sales of American cars do not increase is that American cars are not attractive. If one were to use this as part of a uniqueness theory, it would be nothing more than speaking out of prejudice.

The American CNN cable TV network recently had a program about quite a number of American companies that have been successful in Japan. They all agreed with what was written in the MIT report, namely, that "once you get in, Japan is easier to do business in than other countries."

This may be a kind of theory of uniqueness of Japan, but at least it is based on real experience. We would really like to get rid of theories of uniqueness that are divorced from reality and that play games with language.

A Lot Is Expected of Japan

Last year (1989), I went abroad eight times. In May I attended a Japan-Soviet roundtable discussion in Moscow; in September I attended a conference in Hungary; and I also visited West Germany, Austria, the United States, and Southeast Asia. By coincidence I was able to visit the places where the system set up at Yalta crumbled. The world is changing, and it is economic power that is the impetus for these changes. Dissatisfaction that comes from a scarcity of daily necessities cannot be crushed by authority.

In the midst of all these changes, a great deal is expected of Japan, which has come forth as an economic power. If the flow of Japanese money were to stop, there are quite a few countries whose economies would be damaged. In Southeast Asian countries, 70 percent of the money spent on public works comes from Japanese aid. When Japanese money was stopped because of the Tiananmen massacre, the economic outlook for China looked bleak.

If the flow of capital from Japan to the United States were to stop, a disaster would result.

In international relations, bargaining power is economic power. All countries realize this, and are scrambling to rebuild their economies. In the midst of all this, the theory of Japan's uniqueness is idle talk. In the United States, just as the cold war with the Soviet Union is about over, there are now those who speak of the threat from Japan. This is a fossilized notion left over from the age of hegemony through military might. According to this frame of mind, one must constantly be on the lookout for enemies, and this causes nothing but trouble.

In today's world, the question is how will the economic power of a strong Japan be used to create the next world order. If Japan provides a suitable answer to this question, it will no longer be the faceless country that it is so often thought to be. I am certainly looking forward to this debate.

* Setting New Rules for Administrative Procedures

902A0034A Tokyyo NIHON KEIZAI SHIMBUN in Japanese 16 Nov 89 p 1—FOR OFFICIAL USE ONLY

[Text] The Management and Coordination Agency has developed a plan for and has begun examinations into establishing an "administrative procedures law" which would uniformly regulate administrative procedures and the way legislative guidance should be conducted. Prospects are that the framework of the plan will be as follows: 1) When the national or local government processes administrative items such as permits, licenses, or registrations, or their cancellations, government—as a general rule—will establish and make public the standards for such items and set a standard processing period for each item. 2) When the national or local goverrnment handles "infringement measures" which would limit the rights of the people, or refuse requests, they will give, in addition, their reasons in writing. 3) The government will clearly state its administrative standards in written form, and establish definite rules. The aim [of this movement] is to deal with criticism from abroad to the effect that "Japanese administrative procedures are ambiguous and unfair," to take a radically new look at the Japanese administrative style, and also to increase clarity and fairness. The Management and Coordination Agency is going to establish an "Administrative Procedures Council" (tentative name) within the next fiscal year, and has as a goal setting up a plan by fiscal year 1992.

Once the administrative procedures are established, the standards and processing times for administrative items will be clearly stated in advance, and there will be very little room for discretion by any single agency. For business and individuals, it would make it that much easier to know the administrative procedures. For example, in case a financial institution were to request a permit for a new office, a new unified law would make it easier for the institution to make its preparations and plans in advance. Furthermore, in case a restaurant were to have its permit cancelled—meaning the suspension of its business—these new measures could reduce both distrust by the restaurant of the administration, as well as minimize unnecessary friction because now the [government's] reasons will be stated, unlike in the past.

The reason the Management and Coordination Agency went on record supporting the establishment of the said plan is that it judged the preparation of basic laws concerning administrative procedures and administrative guidance to be a pressing need, from the viewpoints of both the promotion of administrative reform and harmony in the international system.

Presently Japan has no unified legislation regarding administrative procedures. Each administrative field establishes individual laws as the neccesity arises. However, this method causes dispersion among administrative procedures, and is a reason for unfairness and partiality. Moreover, it brings as a harmful influence an increase in the complexity of administrative procedures.

The fact that foreign enterprises continue to advance into our country backed by the progress of internationalization and open markets, and that there are, therefore, increased numbers of these foreign enterprises getting directly involved with the Japanese administrative system, also increases the need for early establishment of a unified law. Among foreign enterprises [in Japan], there are many which are displeased with the Japanese style of supplying administrative guidance without any legislative support. There are even opinions which say that "an administration system which can be understood only by the Japanese is a kind of non-tariff barrier."

Among those nations which already have established unified administrative procedures, such as the United States, West Germany, and Great Britain, there are strong tendencies to see the unconformity of the international system as a problem. The Management and Coordination Agency has taken particular notice of the dissatisfaction of foreign enterprises [in Japan] as "a risk which, if left untreated, may develop into new structural friction with foreign nations in the future." Therefore, it has decided to hasten the establishment of a unified law.

Yet, besides the fact that the establishment of the said law will require the adjustment and revision of an enormous number of related laws, there also is deep-rooted resistance from each related agency. Therefore many turns and twists are predicted before this legislation's establishment. Presently, there are almost 500 individual laws regarding administrative procedures such as permits, licenses, and registrations. In order to establish a unified procedures law, all those [individual laws] must be looked at again. At the same time, a revised plan adjusting their mismatched or overlapped sections must be established. Presently, each agency can operate its administrative affairs freely within its own individual latitude and judgement under the label of

"administrative guidance." Therefore, it seems inevitable that an opposition movement will arise against a unified procedures law which might lead to the reduction of each agency's authority.

H-2 Rocket Development Undergoes Troubles

OW0102091890 Tokyo NIHON KEIZAI SHIMBUN in Japanese 29 Jan 90 Morning Edition p 17—FOR OFFICIAL USE ONLY

[Text] The development of a large H-2 rocket, the pillar of Japan's space development, will face a crucial turning point after February this year. The trial manufacture of the LE-7, which is the first stage and key engine of the H-2 rocket, has continuously undergone technical troubles. For this reason, the National Space Development Agency has postponed the timetable for launching the rocket from 1992 to 1993. Ground ignition tests of the improved LE-7 engine will begin in mid-February. It has become clear that the major technical problems involve the fuel supply and strength of the turbine blades, but officials concerned are confident of solving these two technical problems. However, the officials said that depending on the results of the ignition test, the timetable for the first launch may be put off and Japan's entire space development may be re-examined.

The first technical problem in the LE-7 engine is how to keep the mixture ratio of liquid hydrogen and hydrogen as designed when the engine starts. When the agency tested the engine in the Tanegashima Space Center (located on Tanegashima of Kagoshima Prefecture) last fall, the engine did not function as designed and caught fire twice. In the test, the number of rotations of the turbo-pump sending liquid oxygen into the fuel room in the engine did not rise and the pump ran idle. As a result, the pump failed to supply sufficient liquid oxygen into the fuel room. This was the cause of the test failure. Surplus oxygen and a lack of hydrogen in the fuel room combine to generate high-temperature gas, and the officials view this as the most knotty technical problem.

As technical measures to solve this problem, the agency plans to 1) emit fuel outside in case of high pressure in the fuel room by setting a bypass, which will adjust pressure in the room; 2) raise the pressure of the hydrogen tank; and 3) perfect the fuel valves so that they will open and shut properly, as well as perfect the timing of ignition. The agency will test their effectiveness.

If the bypass is set, this will unnecessarily emit fuel to the outside, thereby dropping fuel efficiency. Raising the pressure in the hydrogen tank requires sophisticated design work. The best way to solve this technical problem would be to perfect the opening and shutting of the fuel valves. However, it is difficult to control the fuel valves in an adroit and highly reliably way.

The second technical problem is the appearance of cracks in the turbine blades in the turbo-pump sending liquid hydrogen into the fuel room. The blades become cracked from the high-speed rotation of 43,000 revolutions per minute. The blades are hollowed to make them lighter; measures to solve this technical problem are either to fill the hollows with alloyed nickel or to place pillars inside them. The agency's Kakuda Rocket Development Center located in Kakuda City of Miyagi Prefecture has begun testing the performance of an improved turbo-pump. The center plans to install the new turbo-pump in the LE-7 engine after completing the preliminary test around May. Yoshio Yamada, a senior researcher of the agency's development headquarters said that "the solution of the technical problem appears to be possible one way or another, judging from the results of computer simulation and small models." The LE-7 engine is a two-stage combustible type using liquid oxygen and hydrogen like the main engine of the U.S. space shuttle. The agency, at the present designing stage, is aiming for top performance in the world, surpassing that of the space shuttle in terms of fuel efficiency. However, there are many unknown technical troubles and problems. There is also the possibility of other technical problems appearing, in addition to those thus far confirmed.

With the development plan postponed for one year, the agency is under pressure to speed up the launch of the H-2 rocket to put satellites into orbit. If the launch of the rocket is delayed, it is conceivable that Japan will ask the United States and Europe to put the satellites into orbit. If the development of the H-2 rocket is delayed, it is also feared that some U.S. congressmen who have been smoldering over the issue would abruptly voice their demands for opening the market concerning the rocket.

Editorial on Space Exploration Efforts

OW0902052290 Tokyo ASAHI EVENING NEWS in English 7 Feb 90 p 6—FOR OFFICIAL USE ONLY

[ASAHI SHIMBUN 7 February editorial: "Japan's Space Program"]

[Text] Gracefully dubbed Hiten (Celestial soaring), an artificial satellite is moving back and forth over a distance of upward of 300,000 kilometers between the earth's periphery and the moon's orbit.

It is an experimental engineering satellite launched by the Education Ministry's Institute of Space and Astronautical Science last month and is to release on March 19 a tiny satellite that will orbit the earth, thereby enabling Japan to have scientific access to the moon for the first time in history.

Twenty years have elapsed since the University of Tokyo's Space and Aeronautical Research Institute, the predecessor of the Institute of Space and Astronautical Science, launched Japan's first man-made satellite, Osumi. Japan has now reached maturity in space exploration, and is poised to leap into deep space beyond the earth's gravitational field.

One of Hiten's missions is to study energy saving technology known as swing-by, which allows space probes to reach distant planets and comets. Hopes are pinned on future space exploration via spacecraft to move about on low-energy swing-by technology as gracefully as celestial nymphs waltz.

Swing-by technology accelerates spacecraft as if swinging them around on the end of a string by using the gravitational force of heavenly bodies. Launched from a space shuttle last fall, the Jupiter probe Galileo will swing back and make a flight toward Venus, eventually reaching its target aided by the gravity of both Venus and Earth.

The probe's path appears roundabout, but by moving so, the energy required for the propulsion of its rockets may be saved significantly. This energy-saving technology is indispensable for future space exploration. It will be polished while Hiten brushes past the other side of the moon to pick up speed and when it cuts across this side of the moon to slow down.

Japan's space-exploration programs for 1990s include the Penetrator, which will jab into the surface of the moon like a spear, and a probe to circle Venus. Although man has landed there, mysteries remain about the moon, such as whether the moon came into existence after being torn from Earth. Probes into the center of the moon may provide clues.

As they have been little probed, Mercury and the asteroids are attractive research targets. We support programs under which Japanese researchers would probe unknown space. Japan ought to play a part, if not a significant one, in the fulfillment of man's romantic dreams in space, for which there has been no alternative but to rely on the United States and the Soviet Union. But there are a number of things we want to see realized first.

One is to work out substantive and meaningful programs with minimal budgets. The basic research work on which we have to concentrate our efforts is not confined to space science. It is to be hoped that the outlays will not snowball as space exploration takes on an increasingly sophisticated character.

For this, swing-by technology will be of use, but greater efforts ought to be concentrated on research into more lightweight, highperformance instruments to be mounted on spacecraft. Equipped with the miniaturization technology that is Japan's forte, might not the nation be able to contribute to space exploration?

Another task is to keep stepping up Japan's international cooperation. Ginga (Galaxy), an X-ray astronomical satellite launched by the Institute of Space and Astronauticall Science three years ago, is so highly rated around the world that upward of 100 foreign scientists have already been to the institute.

Hiten is equipped with a dust counter produced by the Munich Institute of Technology in West Germany. In the future, we want Japan to broaden its range of cooperation to encompass the Soviet Union, Eastern Europe and developing countries instead of confining it to Western nations.

The National Space Development Agency launched at the Tanegashima Space Center on Feb. 7 an H1 rocket carrying the oceanic observation satellites 1B and two other satellites. In terms of practical satellites, Japan is in the neighborhood of maturity.

At the moment, Washington is demanding that Japan open its market to American satellites and seems ready if need be to use trade sanctions under the Super 301 provision of the 1988 Omnibus Trade Act. We think Japan should consider from the perspective of international coordination just what aspects of space exploration it ought to spend its efforts on.

* Record 4.5 Trillion Yen Spent for Entertainment

902A0065A Tokyo SANKEI SHIMBUN in Japanese 28 Dec 89 p 1—FOR OFFICIAL USE ONLY

[Text] An administration agency disclosed the results of their 1988 corporate survey. The study revealed that Japanese companies spent over 4.5 trillion yen last year on business related entertainment expenses such as parties, golf outings, receptions, and gifts. This unprecedented outlay for business related pleasure, attributed to the robust economy of the past few years, paints Japan as a superpower when it comes to corporate good times. During the same period, donations from corporations, largely in the form of contributions to politicians, were found to have reached a new high of 393.7 billion yen.

The national tax agency estimated entertainment expenses for 181,273 companies by sending survey forms to the top 57,000 companies (ranked in order of yen capitalization) which asked them to describe corporate spending patterns for the period from November 1988 to January 1989. The survey results revealed that corporate entertainment spending surpassed 4.5 trillion yen for the period, an amount which was 384.1 billion yen greater than the 4.1862 billion disclosed for the preceding year. This means that Japanese business spent 12.4 billion yen per day on receptions and other similar affairs. The spending curve climbed 8.7 percent from 1987, a year which in turn demonstrated an 8.1 percent increase from 1986.

Especially during the period from 1975 through the early 1980's, Japan was criticized as a country which spent lavishly to insure corporate good will. Responding to this censure, the tax reform law of 1982 specified that entertainment expenses for companies capitalized at over 500 million yen would no longer be viewed as deductible operating costs. The new tax law, combined with the economic belt tightening of 1983 and 1984, drove corporate entertainment budgets down almost two percent, but spending began to increase again in 1985 and the steadily climbing yen eventually spurred a comeback for large-scale entertainment spending.

The survey also classified entertainment expenditures according to the type of enterprise. Large trading houses sit atop the list with a combined outlay of 830.2 billion yen. They were followed by construction firms at 770 billion, service industries at 459.2 billion, machine makers at 331.1 billion, chemical firms at 327.6 billion, and retail businesses at 318.3 billion yen.

Average entertainment spending was calculated at 24.5 million yen for each company in Japan for 1988, an increase of 100,000 yen over the previous year. It was also calculated that each company spent an average of 4.12 yen for entertainment in relation to each 1,000 yen of profit, a .06 yen increase approaching the high mark of the same statistic calculated at 4.55 yen for 1979. Along with entertainment expenses, corporate donations to various groups and institutions rose to a new high of 390 billion yen, an increase of 10.6 percent. Of these donations, 247.7 billion yen (65 percent) were in the form of political contributions. 238.8 billion went to the general election and 241.19 billion to the upper and lower house elections of 1987.

Sodnom Interviewed on Changing Party Role

OW1802074490 Tokyo NIHON KEIZAI SHIMBUN in Japanese 17 Feb 90 Morning Edition p 1—FOR OFFICIAL USE ONLY

[Report by correspondent Koike on a NIHON KEIZAI SHIMBUN interview with Dumaagiyn Sodnom, chairman of the Mongolian People's Republic Council of Ministers, at Sodnom's official residence in Ulaanbaatar on 16 February]

[Text] Ulaanbaatar, 16 Feb—Dumaagiyn Sodnom, chairman of the Mongolian People's Republic [MPR] Council of Ministers and concurrently a member of the Mongolian People's Revolutionary Party [MPRP] Politburo, met with a NIHON KEIZAI SHIMBUN reporter at Sodnom's official residence in Ulaanbaatar on 16 February, the eve of his visit to Japan.

In the interview, Chairman Sodnom touched on the process of political democratization in the country and positively stated that "the (communist) MPRP's leading role" stipulated under the Constitution "will be deleted." Showing a flexible stance toward a multiparty system, he said that "the party will not oppose it or rule it out as impossible." He also clarified that Mongolia will likely adopt a foreign capital protection bill in the first half of this year in order to strengthen relations with Japan and other Western countries.

Although the Soviet Union, following on the heels of East European countries, has taken steps toward abandoning the Communist Party's leading role, Mongolia will be the first among the Asian socialist countries to spell out a similar policy. This will likely have an influence on the delicate political trends in North Korea and in the three Indochinese countries.

A "Mongolian Democratic Union [MDU]," centering around democratic forces, has been inaugurated in the country. It plans to hold its first national convention in Ulaanbaatar, the capital, on 18 February. In this regard, Chairman Sodnom indicated approval of this convention and declared: "We are ready to cooperate with the MDU and all other political organizations in the days ahead."

Dwelling on relations with Japan, where he is scheduled to visit soon, he said: "I am looking forward to an agreement on getting aid and financial cooperation from Japan." He expressed the idea that it is important for Mongolia to strive for further strengthening of ties with Western nations, including Japan. To this end, the chairman said that the drafting of a foreign capital protection bill is under way. The bill, he said, will likely be adopted in the first half of this year at the earliest.

Sodnom Interviewed on Reform, Restructuring

OW1402122790 Tokyo SANKEI SHIMBUN in Japanese 8 Feb 90 Morning Edition p 4—FOR OFFICIAL USE ONLY

["Summary" of interview with Dumaagiyn Sodnom, chairman of Mongolia's Council of Ministers, by Miyoko Kudo, in Ulaanbaatar; date not given]

[Text] Kudo: Would you please start by describing Monglia's reform process?

Sodnom: One of the main purposes of our reform is to enhance the standards of national life by improving economic relations with other countries. It is also necessary to study advanced experiences of other countries and proceed creatively in the work of improving fiscal, loan, taxation, pricing, and wage systems. Additionally, an important point of Mongolia's reform program is to have an open economy. At present, we are preparing for the promulgation of laws concerning guarantees and stipulations regarding the introduction of foreign capital.

In the political area we are also grappling with the work of democratizing the election system, safeguarding the rights, freedoms and honor of individuals, and carrying the principle of pluralism into practice in society. Thus, I think that perestroyka (restructuring) has now become an irreversible process.

Kudo: I understand that the Mongolian Democratic Union has now become quite active.

Sodnom: The union in question states that the goal of its activity is to promote the reform under way in our country. This is identical to the goals our party and government are promoting and carrying into practice. Regarding the means of achieving these goals, however, there are some points on which we both agree and disagree. The most important thing today is to talk to each other and make correct decisions through close cooperation.

As a result of the policy adopted by the party to direct and propagate democracy—glasnost (opening of information) and pluralism—the Democratic Union was created from among the masses, centering around the youth. Since we gave birth to it, we must support and cooperate with each other, without being antagonistic in our respective activities, as we move in the correct direction.

Kudo: Will it be possible to recognize the Mongolian Democratic Union as a party in the future?

Sodnom: This amounts to a question of embracing a multiparty system, yet, we are not saying that it is impossible for other parties to exist. However, as long as a party (the Mongolian People's Revolutiontary Party) [MPRP] already exists, I think the improvement of that organization and its activities is a question to be solved before going on to anything else.

Kudo: What do you think of the influence of the changes in Eastern Europe and the Soviet Union on Mongolia?

Sodnom: The Soviet Union and Eastern Europe are traditional partners of Mongolia, and we have wide-ranging cooperative relations with them. The reforms in those countries are aimed at overthrowing the Stalinist models, which have monopolized their political, social and economic life for many years. The reform in Mongolia is similar in nature to them, and I believe our country will be affected in many respects. However, they will not have any effect on our country's independence and sovereignty or its independent policy.

Kudo: What do you think the state of Mongolia's security will be after the Soviet forces are withdrawn from Mongolia?

Sodnom: I believe that Mongolia's security will be guaranteed even after the Soviet forces pull out. Since the two great neighbors that adjoin us are permanent members of the UN Security Council, the two countries assume special responsibilities for insuring peace and security for all nations. On the other hand, our country ardently desires to become a member of the Nonaligned Movement. I think this will be one of the factors which will insure Mongolia's security through political means.

Kudo: How about relations between Mongolia and the Soviet Union?

Sodnom: The Soviet forces, which are temporarily stationed on our territory, began withdrawing in 1987; this process is still in progress. However, this has no influence on the traditional Mongolian-Soviet relations in the least. It is our government policy to develop and expand friendly relations between our two countries in a better and more effective way.

Kudo: What about relations with China?

Sodnom: Mongolian-Chinese relations have entered a new stage. Batmonh, general secretary of the MPRP and concurrently chairman of the People's Great Hural, is scheduled to pay an official visit to China sometime this year. This visit, I believe, will be of important significance to the development of our bilateral relations. There are no unresolved, difficult problems pending between the two countries, and developments in economic and all other sectors can be completely anticipated.

Kudo: How about relations with Japan?

Sodnom: It is important to develop friendly and cooperative relations with Japan, a country which is in the same Asian-Pacific region and which possesses highly advanced sciences and technologies. I think that there are areas in which we can cooperate with each other since our economic interests coincide. At the kindly invitation of the Japanese Government, I will be visiting Japan soon. During that visit I will be meeting with the Japanese prime minister to exchange views on our bilateral relations and future cooperation. I am looking forward to the meeting and the talks as an important first step in expanding the relations between our two countries.

Namsray on Perstroyka, Multiparty System

OW1602074790 Ulaanbaatar MONTSAME in English to VNA Hanoi 0115 GMT 16 Feb 90—FOR OFFICIAL USE ONLY

[Text] Ulaanbaatar, 14 February (OANA-MONTSAME)—It is only one year since the policy of restructuring was officially declared in Mongolia. However, in this short span of time tangible results ahave been achieved, said Politbureau member and Secretary of the MPRP Central Committee Tserendashiyn Namsray at a meeting with Mongolian journalists today.

The party, which initiated the restructuring, takes systematic measures for carrying out restructuring in different spheres of social life. The much criticized slowness of these processes could be attributed to the long pauses between decision-making, working out of follow-up measures sand their implemenation, he said.

T. Namsray observed that perestroyka did not yet turned into a comprehensive process encompassing all and everything. In this connection he noted that a key issue was to make it irreversible. "In saying so I mean not the threat of falling back into the old situation but rather the task of sustaining the momentum of the commenced developments", he stressed.

"It is one thing to set forth perestroyka objectives and it is quite another matter to give them ideological and theoretical support. Proceeding from this one may say that our restructuring is still to evolve into a comprehensive process, T. Namsray pointed out.

Answering questions put by journalists, he said that he disagreed with the idea of multi-party system just for the sake of having many parties. He noted that the newly emerged unofficial movement "Mongolian Democratic Association" as well as other similar organizations were the results of the 5th plenary meeting of the MPRP [Mongolian People's Revolutionary Party] Central Committee (1988).

T. Namsray said he recognized the right of party members to express group opinion, and that there were no factions in the Politbureau, although the views of its members differed on specific issues.

He also said that the Central Committee did not consider the question of conducting a purge in the party.

Prosecutor Publishes Information on Tsedenbal

OW1602064990 Tokyo JPS in English 0123 GMT 16 Feb 89—FOR OFFICIAL USE ONLY

[Text] Ulaanbaatar, February 14 (OANA-MONTSAME)—The national daily "UNEN" has published a short information from the MPR [Mongolian People's Republic] public prosecutor's office concerning the ex-party and state leader of Mongolia Yumjagiyn Tsedenbal (left his post of party Central Committee general secretary and chairman of the

Presidum of the Great People's Hural in 1984 for health reasons).

It says "some central papers have repeatedly published materials on the activities of Y. Tsedenbal and the country's public prosecutor's office continues to receive letters from the working people concerning abuse of power and distortions of law by Y. Tsedenbal. Proceeding from all of this, the MPR prosecutor's office has decided to look into this matter".

Exit, Entry Reportedly Tightened in Pyongyang

OW1602054190 Tokyo SANKEI SHIMBUN in Japanese
15 Feb 90 Morning Edition p 5—FOR OFFICIAL USE ONLY

[Text] According to a source on Korean peninsula affairs in Tokyo, it was learned on 14 February that the DPRK has strictly placed the entry and exit of foreigners, as well as that of local people living in the provinces, under control in Pyongyang since mid-January. Because of unconfirmed reports that a "demonstration demanding democratization" has been held in Pyongyang, it is believed that the North Korean authorities are very nervous about the democratization movements in the USSR and East Europe and have further tightened control.

According to the source, the North Korean authorities started to impose strict controls on entry into and exit from Pyongyang since around 15 January. Armed soldiers have been deployed at the Pyongyang Train Station to interrogate passengers and closely check travel documents every time a train comes in from the provinces.

With regard to foreigners, there has been a marked delay in the processing of invitations required for entering the country.

The source also said that unconfirmed reports have it that "a demonstration demanding democratization was held in Pyongyang in late January." He pointed out that there is a possibility that moves seeking reform have also surfaced in North Korea.

Regarding the recent tightening of restrictions, there has been no official statement from the North Korean authorities. Such restrictions have not been observed in the provincial cities of Chongjin and Wonsan.

However, the source pointed out that "as soon as the moves for reform in the USSR and East Europe emerged, North Korea called back North Korean students in East Europe and held an emergency meeting of ambassadors." His analysis is that North Korea is extremely fearful that the wave of democratization may affect the country.

Experts Identify Nuclear Facility in DPRK

OW1102153690 Tokyo MAINICHI DAILY NEWS in English 10 Feb 90 p 14—FOR OFFICIAL USE ONLY

[Text] A team of Japanese scientists released satellite pictures in Tokyo Friday which they said showed major expansion work at what is believed to be a nuclear facility in North Korea.

The photographs, taken by France's SPOT observation satellite in September, showed buildings believed to house a reactor, nuclear recycling plant, research facilities and staff housing.

The facilities are located near Yongbyon, 90 kilometers (55 miles) north of the North Korean capital of Pyongyang.

Toshifumi Sakata, a professor at Tokai University, told reporters that a comparison of the pictures with photographs of the complex taken by SPOT in July 1986 indicated major expansion.

He said the 1989 photo showed a large structure which was not there in 1986.

The satellite photos were analyzed by computers at Tokai University's Information Technology Center.

Jane's Defence Weekly said in September that North Korea would be able to manufacture nuclear weapons within five years.

Sakata said he could not tell from the satellite photos whether the facilities were designed for peaceful purposes or for making nuclear weapons.

North Korea's nuclear facilities had been reported previously by South Korean newspapers and Jane's, but this is the first time that the actual location has been photographed by satellite.

Kim Yong-sam Says Merger Proposed by President

OW1402150390 Tokyo SANKEI SHIMBUN in Japanese
9 Feb 90 Morning Edition p 5—FOR OFFICIAL USE ONLY

[By Katsuhiro Kuroda]

[Text] Seoul, 8 Feb—Democratic Party [RDP] President Kim Yong-sam, who is said to have played the leading role in the merger of the government and opposition parties in South Korea, said that the merger was initiated at the proposal of President No Tae-u (concurrently president of the ruling Democratic Justice Party) and came about when Mr. Kim Yong-sam acted in concert. In an interview with SANKEI SHIMBUN today, the RDP president disclosed that "the plan was conceived by President No and the decision was made by Mr. Kim Yong-sam."

He also revealed his desire to meet with Prime Minister Kaifu and other Japanese Government leaders as well as Japan Socialist Party Chairwoman Doi when he stops over in Japan on his way to Moscow for his second visit to the Soviet Union, scheduled for March. He thus stressed his position as a leader of the new government party to attach importance to Japan.

Mr. Kim Yong-sam stunned and perplexed the nation through his "transformation" from an opposition politician for more than three decades to a leader of the party in power. He is thus criticized by some quarters, but he said he learned of the idea of the government-opposition merger from a decision made by Brandt, head of the West German Social Democratic Party, in the latter half of the 1960's. The "decision and courage" demonstrated by Mr. Brandt at that time, Mr. Kim said, led to the prosperity of West Germany and the implementation of eastern policy, laying the ground for the latest development where the unification of East and West Germany has become a realistic question. The inauguration of the new government party, he said, is designed to establish a stable government in preparation for unification between South Korea and North Korea (DPRK).

Explaining the process leading to the merger, Mr. Kim said that a coalition with the ruling DJP was first proposed by President No when he met him immediately after returning from a visit to Moscow in June last year. At that time, the two agreed in their aspirations to rid Korea of political instability under the four-party system, including the ruling party. However, he opposed the proposed coalition on grounds that it was unfit for South Korea, citing the failure of the Chang Myon government in the early 1960's as a precedent. He reserved his attitude, saying that the settlement of the previous administration's issue should come first. On 12 January, or after the predeceding administration's issue had been settled through the testimonies given to the National Assembly by former President Chon Tu-hwan toward the end of last year, he met with President No and was again approached with the coalition proposal. As a result, an accord was reached on adding the Republican Party, making headway for the merger in a single stroke, he said.

PPD's Kim Tae-chung on DJP Merger, Leadership

OW1302154390 Tokyo TOKYO SHIMBUN in Japanese
3 Feb 90 Morning Edition p 9—FOR OFFICIAL USE ONLY

["Summary" of an "exclusive interview" with Kim Tae-chung, president of the ROK opposition Party for Peace and Democracy, by correspondent Ishizuka, at the PPD headquarters in Seoul on 2 February]

[Text] Seoul, 2 Feb—Kim Tae-chung, president of the ROK opposition PPD [Party for Peace and Democracy], in an exclusive interview with this newspaper today, said it is doubtful whether the merger of the ruling Democratic Justice Party [DJP] with the opposition Reunification Democratic Party [RDP] and the New Democratic Republican Party [NDRP] into the new "Democratic Liberal Party (tentative) [DLP]" will "succeed." He further clarified his readiness to put the PPD under a collective leadership system in the future, and ruled out his retirement from the front-line, saying it was "impossible." Some RDP members, who refused to join the new party, are calling for his retirement as a precondition for their merger with the PPD. A summary of the interview with President Kim follows:

[Ishizuka] Does the merger of the three parties represent a crisis to the PPD?

Kim: There are two views on this. One is that the advent of a mammoth government party will be disadvantageous for us because it will lead to our isolation; the other is that this will turn into an advantage in that we will become the only opposition party. Secessionists stand out in the RDP and, in substance, the DJP has been torn asunder. The merger, which was agreed on behind closed doors in disregard of the people's wishes, has come under fire and it is doubtful whether or not it will succeed. From my political experience, the merger of the three parties is a challenge to the PPD and, at the same time, a good opportunity (for the PPD to expand its force).

[Ishizuka] Is it not your task to overcome the provincial nature of the PPD's concentrating its support in the Honam (Cholla) area?

Kim: Even the DJP, RDP and NDRP are no different in this regard because they too all are regional parties. However, since the RDP will become the ruling government party, its supporters in areas other than Honam may shift their support to the PPD. This whole situation will be clarified at the PPD's party convention scheduled for March.

[Ishizuka] Do you have a plans to restructure the opposition camp by dissolving the PPD and founding a new party?

Kim: It might have been possible if the RDP had not participated in the new party, but it is inconceivable now. There are very strong voices among our supporters calling for surmounting difficulties by further strengthening the party.

[Ishizuka] How about your retirement from the frontline, which secessionists from the RDP put forth as a precondition for their merger into the PPD?

Kim: My retirement is impossible. There has been no such call from the party, either.

[Ishizuka] Is party management under a collective leadership system possible in the future?

Kim: A single leadership system is the principle for our party management; however, if those who join the PPD in the future so desire, I am prepared to adopt a collective leadership system. What I mean to say that my position in the party at that time should be determined by the party's opinion.

Kim Tae-chung Criticizes Conservatives' Union

OW3101021290 Tokyo ASAHI SHIMBUN in Japanese 28 Jan 90 Morning Edition p 7—FOR OFFICIAL USE ONLY

[By correspondent Kodakawa]

[Text] Seoul, 27 Jan—President Kim Tae-chung of the Party for Peace and Democracy [PPD], a South Korean opposition party, gave an interview to this ASAHI SHIMBUN reporter in Seoul on 27 January, and called a "betrayal of the people" the move for "union of conservatives" pursued by the ruling Democratic Justice Party [DJP] and two opposition parties—the Reunification Democratic Party [RDP] and the New Democratic Republican Party [NDRP]. He said: "Political stability will be undermined by students' struggle and other forms of the people's resistance against a new party." While predicting that the newly planned party will assume a rigid stand on dialogue with the DPRK (North Korea), he said that "North Korea will undergo a substantial change during the first half of this year." Insisting that there is no change in the PPD plan to send a delegation to North Korea, he reaffirmed the party's intention to go ahead with efforts for improved South-North relations on its own.

Questions and answers with Mr Kim Tae-chung follow:

[Kodakawa] How do you view the planned integration of the three parties?

[Kim] It was the people who chose the political condition wherein the ruling party is to be weak and the opposition camp strong. It would constitute a coup against popular representation if that political condition were altered. Coups in the past were undertaken with guns and swords, but the coup this time was carried out by an illicit union of ruling and opposition parties. This is a betrayal of the people. I think that, in the face of the people's resistance against the new party, the political situation will lose stability, having a very bad influence on the economy. The new party is providing radical forces and students with new excuses to fight, and, at the same time, is giving new justification to crack down on them.

The integration of the parties may have been successful in form, but there will be substantial problems in the course of forming a power structure. I have shared my lot with RDP President Kim Yong-sam for the past 30 years. I am surprised by his change of political stand. I feel sad. I do not think the future of the ruling party will be smooth.

[Kodakawa] What road will the PPD take?

[Kim] This nation is now in an age of the people leading the country. The PPD will face the situation in a calm manner. It will not agitate. We shall first begin a campaign within the Parliament. We shall introduce a resolution calling for suspension of the three parties' plan for merger, or have a general election accepted. If the outcome of the general election so dictates, the Constitution may be amended to adopt a parliamentary-cabinet system. If an intraparliamentary campaign is impossible, then we shall launch a campaign to collect signatures from 10 million people, holding mass rallies as necessary. The PPD will wage strong campaigns to hold down autocratic rule. The party will also have to carry out daring reform, and show the people that it is not a local party existing only in the Cholla provinces.

The RDP and the NDRP are caught by a sense of crisis over fears of losing in the local assembly elections, planned for the first half of this year, while the DJP too is not confident about winning in major cities in the elections. It appears that is the reason why they decided to hasten with integration. In medium and large cities, the people think they should support the opposition camp. With the passage of time, the support for the PPD will grow.

[Kodakawa] What impact will the union of conservatives have on South-North dialogue?

[Kim] Mr Kim Chong-pil of the NDRP is one of those strongly against South-North dialogue and, if his forces combine with those against national reunification within the DJP, the new party is bound to move in the antireunification direction. But, to win public support, the party will push for reunification—as done under the Pak Chong-hi regime's so-called reform system, which in fact was aimed at muzzling the people.

On the other hand, because of new developments in East Europe and other changes in the international situation, I think there will be substantial changes even in North Korea during the first half of this year.

ROK Diplomat Denies Chon Tu-hwan Exile Attempt

OW2601062790 Tokyo SANKEI SHIMBUN in Japanese 25 Jan 90 Morning Edition p 5—FOR OFFICIAL USE ONLY

[Text] In connection with SANKEI SHIMBUN 's report that former ROK President Chon Tu-hwan sought to leave South Korea for Britain, Minister Chong Hyong-su of the ROK Embassy in Japan said on 24 January that "in his personal opinion", "from the information available to us at this moment, it is not possible that the former president could have planned to leave the country to seek political asylum", thus denying the report.